Merseyside
PENSION FUND

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Please ask for: Peter Wallach

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Dear Ms Layne

Consultation on Local Government Pension Scheme: Investment in Partnerships

I refer to the above mentioned consultation document dated November 2012 and am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority of Merseyside Pension Fund.

Wirral Council is responsible for the administration of Merseyside Pension Fund which is part of the Local Government Pension Scheme (LGPS). Merseyside Pension Fund deals with the LGPS pension administration and investments on behalf of the 5 Merseyside District Councils and over 100 other employers on Merseyside and elsewhere throughout the UK.

The Fund has over 45,000 active contributing members, 47,314 pensioners and just fewer than 33,000 deferred pensioners. It is responsible for the investment and accounting for a pension fund of £5 billion. The LGPS is a defined benefit, final salary public sector occupational scheme.

Q1: How best could the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 be amended to enable local authority pension funds to invest more easily in infrastructure vehicles?

MPF considers that the proposal for an increase to a 30% limit on investment in limited partnerships and the additional flexibility it would bring is an appropriate short-term measure. However, as a longer-term solution, we would suggest that a more fundamental review of the LGPS Investment Regulations is undertaken to align them with the flexibility and choice seen in private sector occupational pension funds.

Question 2: What would be the most appropriate limit on investments in partnerships contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009?

Each local government pension fund is unique and a higher limit may not be appropriate for all in view of the illiquidity of partnerships and their long-term nature. Notwithstanding this, an increase to 30% would provide scope for significant additional infrastructure investment without a material change in the way in which the regulations are framed.

Taking into account the illiquidity of many partnership vehicles and their long-term nature, it may be appropriate to strengthen the effect of Reg 15 so that any increase in the Schedule 1 limits is made in conjunction with advice from an actuary that, having regard to the fund's maturity profile, the increase is appropriate. This would allow for differentiation of regulated, mature, income producing operating assets from greenfield, development assets with construction risk and less certainty.

Q3: Should a new investment class for investment in infrastructure (including via partnerships or limited liability partnerships) be created and be inserted into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009? If so, what would be an appropriate limit for such a class? How might this be best defined in regulation?

The Fund does not support a new investment class for infrastructure. There are three principal reasons for our objection.

1. There are many ways and investment vehicles that can be used to invest in infrastructure (e.g. quoted investment trusts, quoted equities, pooled arrangements, bonds) and the focus on partnerships or limited liability partnerships may have the unintended consequence of limiting the range of investment options considered.

2. There is considerable difficulty in defining an asset class and an inevitable consequence is that some suitable investments will be excluded and some less suitable investments included. There may be unintended effects on the categorisation of existing investments already held.

3. Whilst recognising that many infrastructure investments have characteristics that are attractive to pension funds such as their regulatory framework, long term nature, predictable revenues, income generation, lower exposure to the economic cycle, and potential as an inflation hedge, the illiquidity of development assets in particular may make some of them less suitable for some pension funds. Local authority funds are maturing far more quickly than many have forecast due to the substantial reductions in public sector services.

A discrete allocation to infrastructure may be seen as an implicit approval of infrastructure as an asset class and investment strategy should be determined with specific reference to a scheme's liabilities and characteristics.

Question 4: Are there other ways, not specifically raised in this consultation document, that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 could be amended to increase flexibility for local authority pension funds to invest in infrastructure projects?

Response: Although we are not aware of many funds close to the 15% partnership limit, raising it to 30% will enable those funds affected by the restriction to invest if they feel it to be appropriate. As indicated in question 3, there are several ways to access the opportunity.

Question 5: Are there ways in which the Regulations could be amended to facilitate investment in infrastructure specifically in the United Kingdom, where local funds believe that appropriate rates of return can be achieved?

Response: Nothing to add to answer to question 4.

Yours sincerely

Peter Wallach

Head of Pension Fund