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Date: 20 January 2003

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Dear Ms Rochester

Local Government Pension Scheme (Management & Investment of Funds) Regulations 1998 – Prudential Benchmarks

In response to Terry Crossley's letter of 27 November 2002, I am able to provide you with some specific comments on a number of the proposals made in the letter.

General Comment

The Wiltshire Pension Fund Committee remains unconvinced of the need for the prudential benchmark limits, and believes that the general requirement to diversify should suffice. I note that, despite previous responses to consultations on this subject, no clear rationale for their retention has been provided by the OPDM.

In addition, it seems inconsistent that you propose a specific process for approving use of the "headroom" above the existing limits when there is, to my knowledge, no similar requirement in the Regulations for Funds to justify, for example, why they may choose to invest in one asset class. I am, of course, thinking of global equities, which nearly halved in value over the period early 2000 to late 2002. I accept that such a decision should be explained in a Fund's Statement of Investment Principles, but the decision making process is not specifically prescribed in the same way.

Specific Comments

- Proposals for Revised Schedule 1 (Prudential Limits Headroom)

Wiltshire wishes to request, yet again, a removal of any limit on pooled investment vehicles under the management of one manager, where these are "manager of managers" arrangements. The effect of using such vehicles is that the recruitment, review and replacement of investment managers in various specialist markets are placed in the hands of a single firm. What is therefore happening is that a local authority that invests in this way is effectively outsourcing these roles.

I therefore see no reason why such an arrangement could not be applied satisfactorily to 100% of a Fund. Many private sector trustees apply such an arrangement for their entire Fund. I see much to commend this, particularly for smaller local authority funds.

In any event, if it is decided not to remove this limit in respect of manager of managers arrangements, I would be very interested to have your reasons for not doing so. Before you take such a decision, you may find it helpful to speak to one or more of the main providers of this product, such as Frank Russell, Northern Trust or SEI, so that you take a decision from a position of full understanding.

I believe that very similar arguments can also be applied in relation to index tracking funds, which also represent an attractive option for smaller funds. Again, a justification for why a higher limit should not be allowed (in this case, at least 50%) would be appreciated.

- Expertise of local authority elected members to make “headroom” decision

Assuming the maintenance of prudential benchmark limits, I am very much against the very prescriptive suggestion made that the body taking the decision to use the additional headroom must comprise one member who has received a certificate from the LGPC demonstrating attendance at its Trustee Training course.

Please accept that many elected members serving on committees and panels have been doing so for a long time, and have sufficient knowledge, experience and/or understanding to enable them, with the aid of advice, to take decisions such as this. Some discretion should be allowed for a judgement to be made locally on what is required in respect of trustee training. You may be interested to know, in this context, that the Chairman of Wiltshire Pension Fund Committee is a former head of a City investment management firm, whilst the Vice-Chairman has many years experience as a senior banker.

As an aside, I believe the content of the LGPC Trustee Training course to be far too detailed. It appears to be more appropriate for practitioners, and is set at a level that may cloud the key issues for elected members, which are more strategic. Training therefore needs to be pitched at a higher level. My views on the course content have been put to LGPC via the South West LGPS Investment Officers Group.

Conclusion

I hope you find these comments to be helpful.

Yours sincerely

County Treasurer