

WILTSHIRE PENSION FUND COMMITTEE
23 February 2004

THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT & INVESTMENT OF FUNDS)
(AMENDMENT) REGULATIONS 2003 – PRUDENTIAL LIMITS

Purpose of the Report

1. The purpose of this report is to update Members on recent changes to the Local Government Pension Scheme Investment Regulations.

Background

2. Members may remember receiving an item on this subject at their meeting on 4 February 2003, when I circulated a copy of the Office of the Deputy Prime Minister's (ODPM) consultation letter and my response.
3. My general concern at the time was that Prudential Limits on particular investment classes, although not new in the consultation, are nevertheless unnecessary, given the general requirement in the base Regulations to diversify. Further, I noted that the new proposal to introduce "headroom" above these limits was inconsistent with the existing Regulations, given that there is no specific requirement to justify the choice of particular asset classes in the first place. For example, why allow Members to allocate 25% of their Fund to a single Unit Trust quite freely, whereas if they wish to increase this to the new limit of 35%, they must take "proper advice" and be very prescriptive about the decision-making process?
4. I had specific concerns about the limit on pooled investment vehicles, which restricts "manager of manager" arrangements like our own with Northern Trust. Such a restriction seems illogical, given that little is changing in practice compared to traditional manager arrangements, except that funds are outsourcing the recruitment, review and replacement of investment managers. Indeed, these arrangements typically lead to more diversification, not less, which is consistent with the overall thrust of the Regulations.
5. I also queried the proposed requirement that, where the proposed headroom on the Prudential Limits was to be applied, at least one member of the decision making body must have a Local Government Pensions Committee (LGPC) certificate demonstrating attendance at its Trustee Training course. I felt this was somewhat patronising, given the experience of many trustees and the fact that funds already have a responsibility (particularly since the Myners report) to ensure that trustees are properly qualified to take decisions. Further, to restrict qualification for this purpose to the LGPC's rather over-detailed training course was not helpful.

The Approved Regulations

6. The final version of the Regulations was approved by Parliament on 29 October 2003 and came into force on 19 November 2003.
7. The concerns expressed in my response to the consultation have been largely left unaddressed, although the requirement for one trustee with LGPC training certification has been dropped and replaced with a requirement that "proper advice" be taken if the headroom is to be used. In fact, little else has changed as a result of the consultation, except that some of the headroom limits have not been extended as far as previously proposed.
8. In summary, the effect of the Regulations is that Funds may increase investment in certain asset types from the percentage shown in column 1 of the Appendix to that shown in column 2 of the Appendix. This is provided that:

- a) Proper advice has been taken.
- b) The investment policy is formulated with a view to:
 - i. the advisability of investing in a wide variety of investments; and
 - ii. the suitability of particular investments and types of investment.
- c) Certain particulars about the decision are formally minuted, including a description of the actual investment, the reason for it, the period for which it applies and the review arrangements.
- d) The Fund's revised Statement of Investment Principles (SIP), reflecting the proposal to use the headroom, has been "published" before the final decision is taken.

What does this mean for the Wiltshire Pension Fund?

- 9. There are no immediate implications for the Wiltshire Fund. However, when Members decide to review investment strategy next time, perhaps an interim review following the results of the 2004 valuation late this year, then these limits would have to be borne in mind. My initial view is that, despite concerns about the principles, this control framework is unlikely to significantly hinder Members in making decisions about the Wiltshire Fund's investments.

Financial Considerations & Risk Assessment

- 10. There are no direct financial implications of these Regulations. However, it is possible, due to the somewhat restrictive nature of the Regulations, that at a future review of investment strategy, Members may not be able to set exactly the strategy they would wish to maximise returns.

Environmental Impact of the Proposal

- 11. There are none.

Proposals

- 12. Members are asked to note The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003.

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County Treasurer

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Unpublished documents relied upon in the production of this report:

NONE

49/2004/PENS/DB

**THE LOCAL GOVERNMENT PENSION SCHEME
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	<i>Column (1) Limits under regulation 11(2)</i>	<i>Column (2) Increased limits under regulation 11(2A)</i>
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	15%
4. All deposits with – (a) any local authority, or (b) any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000(a)) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans (but see paragraph 12).	10%	-
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding (but see paragraphs 13 and 14).	10%	-
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	-
8. All sub-underwriting contracts.	15%	-
9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body (but see paragraph 14).	25%	35%
9A. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	25%	35%
9B. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 14).	25%	35%
10. Any single insurance contract.	25%	35%
11. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	-