Appendix 2

GLA Oversight Committee, 22 October 2015

Transcript of Item 7: London Pensions Fund Authority

Len Duvall AM (Chair): We are now looking at the London Pensions Fund Authority (LPFA). We welcome, then, Sir Merrick Cockell, the new Chairman of the London Pensions Fund Authority and Susan Martin, the Chief Executive Officer, as well as Chris Rule, who is the Chief Investment Officer.

Just to be clear, informally, you are in the middle of establishing a partnership with Lancashire [the Lancashire County Pension Fund] and you are, obviously, in the middle of some consultation, which I am going to speak about later on. I do not think we should take this meeting as part of that consultation. There may be elements that will come into it, but you need to write formally to us around the consultation and we will appropriately respond as the London Assembly. There are some issues around that that we just need to clarify.

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): Chair, currently we have been working very closely with City Hall and David Gallie [Assistant Director - Group Finance, Greater London Authority (GLA)] from City Hall attends all our board meetings. My understanding is that he is also advising the Assembly and City Hall to make sure that you are aware of what we are up to. It has also been included in our business plan and budget that comes to the Mayor each December. We started off this process, which is basically a partnership or shared service type of approach for local government pension funds, a couple of years ago and there has been regular reporting into City Hall.

Len Duvall AM (Chair): With what we are going to talk about, some of your partnership is going to be very new to Assembly Members. David Gallie is a very creditable officer and does a lot of hard work here at City Hall, however you should not assume that all 25 Assembly Members understand your proposals or have been briefed. At some stage, I presume we will go into the detail of it. In terms of the exercise you are going through, under the legal rules of what you are trying to do, you need to do some full and proper consultation.

I know that you are quite a long way down your partnership route, but I presume we would be one of the bodies that you would formally want to consult with.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): I do not agree, actually, because the LPFA is not changing. It will still be the holder of the fund. It will be the fund, part of the Local Government Pension Scheme (LGPS). The accountability to our members remains exactly the same. Legally, it remains exactly the same. Your ability to scrutinise will not shift from me, the senior executives and the LPFA to - as it is currently called until we have a final name - the Lancashire and London Pension Partnership (LLPP). They will not have a direct relationship with you; we will continue to do and to be that.

We are very likely to be pooling our resources and operating together. We already have managers who are managing billions of pounds of LPFA funds in any case or at least, Chris, £1 billion?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Yes.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): It is a different scale because it is all our funds and Lancashire's, too, and so it is £10 billion overall. However, the legal and constitutional arrangements do not change one iota.

Len Duvall AM (Chair): On the constitutional ones, we would be more than happy to receive the legal advice that you have. In fact, one of my first questions is around some of the legal advice that you are taking with this step in terms of this new partnership. Eversheds, your legal firm, is advising you that you are operating under a section of the Local Government Act 1972 that gives power to do some of these changes. We understand that with the way that Act is framed: you are not a local authority; you are a pension fund authority. If you could clarify those issues and give us some of your legal advice that you think you are carrying out and discharging some of these functions in the way that you are doing in terms of a new way of working, then that might clarify some issues for the future.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Eversheds are the legal advisers to LLPP; in other words, to both Lancashire and the LPFA. We use Clifford Chance for the LPFA.

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): Yes, certainly. Members may be aware - or they may not - that the LPFA was set up with the demise of the Greater London Council. Although we were set up as a statutory body, when the GLA was established, we moved to link in with the Mayor and the Mayor's family.

For the LPFA, we are not a local authority. We can do some things and some things we cannot do. This partnership with Lancashire will enable us to provide a shared-service approach to a range of local government pension funds. At present, we can collaborate with our local government partners on a shared-service arrangement only if they are members of the Mayor of London's family. That restricts how we can collaborate. This partnership will enable us to collaborate with a number of funds, with every single fund, whether it is a local government or local authority fund like Lancashire or whether it is a bit like the Northern Ireland fund and the LPFA fund, which are slightly different and are not local authorities.

Len Duvall AM (Chair): Do you think Eversheds has interpreted the Act regarding the Lancashire involvement because it is a local authority and not because you are a pension fund? For the purposes of this, it would be the City Hall, the Greater London Authority and, in the purposes of the Mayor, it would be the local authority; but you are an arm's-length agency reporting to the Mayor.

What specific advice did Eversheds give you that you have the power to enter into this? I can understand from Lancashire's point of view if it is joint legal advice. Where does it come to in your institution that you have the legal right to enter into this agreement?

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): It is the way that we are established. We do not need a power like a shared-service power to set up this arrangement. Our advisers besides Eversheds, Clifford Chance, have advised us that we are well within our powers. I certainly can take the question away and reply to you formally, quoting the details, but we have been assured by Clifford Chance, the LPFA's advisers.

Len Duvall AM (Chair): I am assured, then, that you think you have the legal power to do that, but one of the aspects that goes with that power is about the consultation arrangements. If I can put it simply, then, if you can do one thing under the power, you cannot pick and choose the other bits of the power. Where does the full consultation take place about the changes that you are undertaking?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): The changes in the management of the money?

Len Duvall AM (Chair): The changes in the management. The constitutional issue, I understand, may not change. You are still there; you are still going to be accountable.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Yes, exactly.

Len Duvall AM (Chair): The power that you are using implies that there is a full consultation or a much wider issue around members. Much that you have not kept this quiet within the GLA family with the Mayor and David Gallie, for the rest of the world it would be news. Is that fair?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): No. The rest of the world is very familiar. Our members are aware and our employers are aware. This has been going on for well over a year now. If you have advice that says we should be consulting on the nature of the way the LPFA chooses to operate investments and administration, we would like to see it and we would like to have been advised of that if there is a difference of views.

Len Duvall AM (Chair): No, you have missed my point. You need to explain to us that you think you have the power. I am saying that, assuming that you do have the power, then part of the power is about you carrying out full and proper consultation as part of that. Have you had specific advice that you do not need to do that? If you tell me you have, that is fine and we will enter into correspondence. The onus is on you to share that in a public setting.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): We have had no legal advice that says we have to go and consult how we administer the funds.

Len Duvall AM (Chair): Maybe you could share that in terms of why you think you have the legal power to do what you have and why you think you do not have to do the consultation that you have. Of course, you are going through some formal consultation with the Mayor to give this agreement with the powers that he has in terms of your work and so that is formal. Would you accept that?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): That is right and, indeed, around the shareholder agreement, which will come into play where currently Lancashire and the LPFA will each own 50% of the new vehicle. Clearly, the Mayor wishes to have a more direct involvement in a few areas as an overriding shareholder and we are working on those at the moment. Indeed, Lancashire County Council, as the shareholder of LLPP, will be looking for similar areas where it will look for agreement in advance.

Len Duvall AM (Chair): Are you the shareholder or is the Mayor the shareholder?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): We are. The LPFA is the shareholder, but obviously we are accountable to the Mayor. There are some areas where any Mayor will be particularly interested - a very few - and those are being looked into at the moment where we would seek to advise and seek agreement with the Mayor before the Board of the LPFA took a decision to do certain things.

Len Duvall AM (Chair): Let us just move on generally now and we will follow up on this issues around whether you can do it or you cannot do it. It is quite important for you to tell us that you can and that these are the steps you took and about any issues about the consultation.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Yes, we can.

Len Duvall AM (Chair): Why Lancashire?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): It is a very open pension fund. It has a history of being interested in some of the things we are interested in. It is a willing partner; put it that way. One could look at these things in geographic terms and we did talk to some pension funds geographically closer to London. We talked to a lot of people and continue to talk to lots of other members of the LGPS.

We have found a meeting of minds. We get on well personally both at the senior management level and the investment-side level. We are already working in clear partnership, as we do with our other partners in Greater Manchester and at a political and leadership level as well. You will know that part of how you co-operate on these sorts of shared services is that you need to be able to work in true partnership to make them successful. With Lancashire, we have found that sort of partnership, which is working.

There are advantages, clearly, in some parts of the future business, particularly administration and things like that, where Lancashire has a historic private sector (as well as council) high reputation and experience in the administration side of public services.

Len Duvall AM (Chair): We understand a little bit about shared services, but are the shared services you are doing here really the arm's-length investment and the management of the assets that you have? Is that what the partnership is? You are pooling those together and you will pool those decisions to get the best outcome for the pensions?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): There are two parts to it. There is the asset-and-liability management (ALM), which is what you have just described, but there is also the administration side, which is not only the administration of the Lancashire pension fund and the LPFA, but also any third party.

The LPFA has long had third-party agreements to administer on behalf of other members of the LGPS including some London boroughs and that is the other part of the business. We will become unique in being able to offer a complete service to other members of the LGPS should they wish to come and join us in the future or they could have a part of those services. It is more than just simply pooling our investments and our liability management.

Len Duvall AM (Chair): It does make sense to do that. I can understand that. However, in terms of pension liabilities bestowed in this partnership: how do you reduce those liabilities if they exist or are there none?

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): The liabilities remain the responsibility of each pension fund. The LPFA's [liabilities] remain the LPFA's responsibility and Lancashire's [liabilities] remain Lancashire's responsibility. What we do at the LPFA, which is unique and which is something that we are helping other LGPS funds with, is we look at our liabilities from having very accurate data so that we understand who our members are, who their dependants are, etc, all the way through to looking at longevity risks, inflation and interest rate risks.

The process and the software we have developed with our Chief Risk and Finance Officer and with Chris [Rule], our Chief Investment Officer, enable us to do valuations in real time. Rather than waiting for a triennial valuation, which pension funds do every three years, we can look at our liabilities every month, every week or every day. That enables us to say, "We are a long-term investor", but we do need to understand how we are going to pay out those promises to make sure that we are getting our investment strategy tailored and targeted to pay those liabilities and pay those pension promises.

That is what makes the LPFA quite different from other pension funds within the LGPS because we look at liabilities first and then we look at assets. We say, "What pension promises do we have to pay? What cash flow do we need? What is our investment strategy to ensure that we have the cash when it is called upon?"

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Can I just add to that? The other part is the strength of the covenants of our employers, which is work that we have pioneered recently. That has led to fresh - shall we say - cover coming in from employers to make sure that they understand their liabilities in the long term. In some cases, they have had to increase their contribution rates and, indeed, give us control over some assets to make sure that they understand long-term debt. This is not, clearly, local authorities we are talking about here. How many employers is it?

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): We have over 200 active employers but over 400 employers as a whole. The majority are not local governments. They are schools, charities, not-for-profits and private-sector.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Already, the LPFA is doing things that other members of the LGPS simply have never done and they are learning from some of the new areas we have looked at, including the strength of the covenant of employers.

Len Duvall AM (Chair): In the new proposals that you have, behind this partnership you have a number of tiers, structures, holding companies, investment subsidiaries and all the rest of it. Is there not more of a streamlined approach? How much this is going to cost? The Mayor holds you to account. How are you holding this body to account that is doing work on your behalf, then? What are the structures that you are putting in place?

I see lots of other issues about the business side of it; I see very few issues about the accountability aside of it. If something goes wrong, what are the levers that you can pull? I know the levers the Mayor can pull, but as you are at arm's length and are even further away from the Mayor. What in effect you are doing is moving it further away from the Mayor's direct control. What are the levers that you pull there?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): There is a view that it is a complicated structure. I do not quite know how that has come about. I do not think it is a complicated structure as it currently is.

It is a holding company and so there is the main board of LLPP, for want of a better term. It has two subsidiaries. One is the investment/liabilities side, which is obviously Chris's [Rule] area of expertise, and that will be authorised and approved by the Financial Conduct Authority (FCA). We are going through that process at the moment. It is complicated. It is, again, breaking through new barriers. It is something the rest of the LGPS with the force of the Chancellor [Rt Hon George Osborne MP, Chancellor of the Exchequer] behind the LGPS is going to, in some way or other, go through. There is no point in having the whole of the new entity FCA-approved; in other words, FCA-approved for the bit that does the administration and other parts. That makes no sense at all. The FCA registration should be around the asset and liability management function. Therefore, there is the holding company and two subsidiaries, one doing ALM and one doing the administration and all of that side of it.

That is the structure as it is being set up now. We are committed to doing a total review within three years of start-up to look at whether that still remains the right structure and, if we can streamline it and if we can reduce it and reduce costs, we will do that.

However, we are at the stage now when we are moving towards LLPP having a life of its own. We have already recruited and announced the new Chairman, Michael O'Higgins, and we have a Board that is being populated at the moment. We have a representative from the LPFA and we have a representative - the Deputy Leader - from the Lancashire County Council. They, along with Michael O'Higgins, form the first three directors of LLPP.

What we are working on now - and Lancashire is doing a similar thing but, obviously, your concern and our concern - is how the LPFA will interact with this private-sector company that it owns half of to make sure that performs at a high level, finds those savings and, indeed, the performance and bridges the gap in our funding, makes sure that we are very cost-effective on administration and all of those things that we are committed to achieving.

That means that we will have to be what I described before as 'demanding' shareholders. There will be lots of service level agreements because what we do not need is for the LPFA to have a large structure and for LLPP to have a mirrored large structure. Not entirely but in many cases, we will be looking to LLPP to provide functions for the LPFA, clearly, around things like communications and administration. They can be done relatively easily under normal sorts of agreements.

Other areas are how the LPFA board will scrutinise and how the LPFA Audit Committee - which will continue - will scrutinise the performance and the financial rectitude of LLPP. That is being worked on in detail now. Indeed, what is the future of the LPFA? Will it just become a relatively small structure overseeing this or might it well be also looking to grow in itself separate from LLPP? These are things that we are looking into at the moment.

Len Duvall AM (Chair): Look, I suppose the only growl is these new British wealth funds that have been created. I presume this is a vehicle that ultimately could potentially turn into one of those or - on your different strategy - you could grow the LPFA, which is a bit difficult once you have given over some of that money, but you could seek to grow that further in another vehicle.

What is the strategy? Is that the strategy for where you would like to be? Is the ultimate game in town to become one of these? How do you think, then, you would reach that? This partnership would have about, what, £10 billion at the moment? Is that the figure?

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): It is about £11 billion.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Clearly, the whole of the LGPS has been for some period now in a state of change. We have all been waiting for the Government to consult on a whole range of things - on scheme administration, on the future of it - and to report. We have been waiting a long time for all of that. Then we had the Chancellor in the Budget after the General Election talking about pooling and talking about larger pools. Then at the Conservative Party conference he talked about these wealth funds and he talked about six funds of about £25 billion.

If one puts to one side six times £25 billion and that the numbers do not quite tally, what he is clearly saying is what we have been doing even before the Chancellor said anything about this, which is to seek to start growing these pools into significant groupings of LGPS members - 89 - working and coming together. Everybody is going to have to have a future direction. They are going to have to declare when the Government launches its next part of consultation - probably next month - what their arrangements are going to be. We are, in a sense, ahead of the game.

However, as you quite rightly say, that is still just over £10 billion. We have said consistently for some time that we think the ideal size is up to around about £40 billion. If you look at our international comparators, that is a scale where you can build the in-house knowledge and so you are having fewer, we say, outside advisers that you are paying for. We all know about investment fees and so on and so forth. We want to be able to grow to a size where we can have those skills in-house and we can be performing in a similar way to - as people always quote - the Ontario Teachers and things like that. That is the sort of scale we believe will be the most effective.

That means that we would, at the right time with the right partners, seek to grow beyond the relationship simply with Lancashire to bring others in. Our thinking had been to get the Lancashire agreement up and running and get that working before we look to bring other people in. Other people could come in, potentially, as equity shareholders or they could come in with us just managing their funds and their administration. There are various ways it could happen.

Clearly, what the Chancellor has said has speeded all of that up. If there is a consultation in November, it has to have ten weeks for the LGPS funds to report back with their plans for their future arrangements. We do not have the luxury of sitting back for a couple of years and bedding down the new arrangements. We are going to have to see whether there are others who see a future in working with us in a pooling arrangement.

Len Duvall AM (Chair): That is the easy bit. We are asking you what the powers are that you are working under in as full an answer as possible. I have in my eyesight the Monitoring Officer [of the GLA, Ed Williams] sitting up there [in the public gallery]. I am more interested in the relationship between those in this building and you and what that means. I am quite interested in the consultation that you think you have to do. I would like that information and the Committee would like that information as soon as possible, if you could supply that.

There may well be some further questions arising as we now look at your performance in terms of, primarily, where we are.

Tony Arbour AM (Deputy Chairman): You did pretty well in 2014 and 2015. Was that because of your talent or simply because the Fund is a good tracker?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): I am a firm believer that one should talk about one's real expertise. I will let Chris Rule answer.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): I am happy to take that. Clearly, you are quite right that the market backdrop has been favourable rather than unfavourable in the period you mentioned there for investing in assets that are intended for growth as opposed to being very defensive. Certainly, yes, there was an element of that. The largest component of the fund is invested in equities and equity markets performed relatively well over that period and that is certainly where the largest part of our outperformance or performance came from.

The way that we try to run the fund is on a long-term basis. When we look at our liabilities and where we are from a funding perspective, we have a target over which we need to achieve to close that funding gap. The way we look at that is on an inflation-linked basis. We have an explicit target of doing inflation plus 3% year-on-year, but that is over a long period. Where we take the most comfort from is, if you look at our one-year, our three-year and our five-year performance, across all of those periods we are well ahead of that target.

I would not say we are a tracker. We do have some passive equity exposure and so, where we wish to, we will invest, plainly, in the asset class if we think it is about getting asset class returns.

A good example of where we are trying to be more proactive is where we have brought in-house some of those equity investments. Last year, we took the decision to 'in-source', if you like, the management of part of our equity book. We did that for two reasons. First of all, we felt that we could manage it well. Second of all, we felt that we could manage it much more cost-effectively. So far, that is what we have seen. We have saved probably £3 million-plus per year in management charges that we used to pay to a third party and we are approximately 10% of the benchmark, which is the equity market, in that case. We are outperforming all of our external managers within that portfolio.

Tony Arbour AM (Deputy Chairman): Are you outperforming in the last six months?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): In terms of that comparison, yes, indeed. The past six months has been much more difficult for those same markets that were more positive last year. Equity market returns are down roughly 10%, depending on which market you look at. Our fund overall is down about 2% to the end of August, which is the most recent audited figure that I have. It was slightly worse than that in September, but we are still finalising those numbers. We are roughly 8% ahead of that market on an overall fund basis.

Even that internal portfolio I mentioned, the only route it has is to invest in equities and it does not have any choice to go into other asset classes. That is around 5% ahead of those markets. It continues to perform very well.

Tony Arbour AM (Deputy Chairman): Based on your performance since you have set up this in-house decision-making on what equities to put in, is that going to encourage you to have an ever-increasing proportion managed in-house in this way?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): I would not necessarily call it 'ever-increasing', but certainly we have plans to increase the level of internal and direct investments that we make. Our common view on this is that we should look to invest internally when we can clearly demonstrate the competence to do that and can do it in a more cost-effective way. There is very little point in us saving money if we then perform badly.

Tony Arbour AM (Deputy Chairman): Of course.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Therefore, it is in a measured way, but certainly the intention and - going back to the partnership - one of the goals there is to create those economies of scale and to create that mass, which would then allow us to support that internal expertise. As I mentioned earlier, we can save £3 million a year just on one part of our portfolio by managing it internally but, as I said, the growth returns, if you like, are what are most important. If we can maintain those and reduce the costs, then we are going to end up with a better result at the end of it.

Over the medium term, we would expect to see an increasing proportion of our portfolio managed internally, but bear in mind that at the moment we are talking about around the 20% mark. I can see that growing to 30% or 40% relatively quickly, but I do not see it being 60%, 70% or 80% anytime soon.

Gareth Bacon AM: Just following on from that, why is the in-house performance better than an external provider?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): I cannot necessarily comment on all external providers. In our case --

Gareth Bacon AM: The ones that you are using.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): There are different styles of investing in some cases. Our in-house style - and that is what it is - is a very long-term, buy-and-hold approach to very large-cap multinational stock. I am trying to avoid going into too much jargon, but it has a quality bias. Rather than chasing the next new thing, we are looking at the strong, stable, quality companies that we believe have a long and sustainable opportunity to maintain their earnings growing at a very fast pace. Those are the kinds of companies that we are investing in.

Those companies are better insulated from some of the more technically driven market movements. If you look at markets this year, for example, I am sure many of us read in the papers in the August period about concerns about the Chinese consumer and the impact that they might have on the global economy. The kinds of companies that we invest in are very well insulated against those kinds of movements. As a result, when you see the markets in general declining because of those macro concerns, it does not affect our companies to the same degree.

Of course, there is some element of impact and that is why we are not sitting here up 10% when the market is down 10%, but overall we are outperforming significantly because of the more defensive nature of our portfolio, if you like.

Gareth Bacon AM: It was the policy decisions that were taken internally about where you will have invest that have led to a better return than you would have had if you had gone to an external fund manager. Is that correct?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Yes. There are external fund managers out there that may follow a similar style to the one that we are following internally but, of course, were we to invest with them, we would then be paying their management fees, their performance fees, etc.

Gareth Bacon AM: Yes, I understand. On that basis, then, I know you said it might go to 30% or 40%, but why is it currently sitting at only 30% internally managed?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): If you go back 18 months it was zero and so we need to prove what we are doing here and we need to be prudent in terms of really demonstrating that we do have that competence and skillset. Before we built out that portfolio, there was a lot of work done internally. There was a lot of scrutiny from the board and from the investment committee of the board. As we grow in confidence and grow in capacity within the team, then we will scale that up.

Gareth Bacon AM: You are looking for a slightly longer-term trend to measure yourself against before you decide to take more in-house?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Yes. It is a 'softly, softly' approach. We have been managing this portfolio for just over a year now internally. It is a very short period of time in investing. We have a multi-decade horizon to manage the pension fund and so one year does not prove anything.

Gareth Bacon AM: Can you talk us through - and you will need to do this in layman's terms - the current allocation of the fund against the different asset classes?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Yes. Very broadly, around half of our investments are in liquid equities, stocks, the traditional equity market. We have around 10% of our portfolio in private equity, again looking at companies but in the private markets rather than the public markets.

We then have slightly less than 10% in infrastructure investments. Infrastructure is an area in which we are changing the style in which we operate. At the moment much of our infrastructure is via funds and many of those funds are things like renewable energy and the like, which we have invested in over the past decade or so.

We have around 6% of our portfolio or just north of that in fixed-income instruments, but those are not traditional gilts. They are, again, similar to our internal buy-and-hold. We are trying to more defensive in terms of how and so we are picking more selectively the markets that we invest in there --

Gareth Bacon AM: Sorry. What is more defensive than a gilt?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): This is an absolute return strategy. A gilt is a very low-risk asset from a counterparty risk perspective, but from a market risk perspective they are incredibly highly valued at the moment because people are risk-averse. Yields are very low. The price has an inverse relationship to yield and so, as yields start to rise, anyone who is holding large portions of gilts would probably lose money because they value of what they hold would go down from a price perspective. They would continue to be paid their coupon from the Government but it is a very low coupon from the Government from that perspective.

Then we have around 15% of our portfolio in what we call 'total return' and that is a variety of diversifying strategies. We might be invested in absolute return and fixed income might be one example of that, but we might have some commodities exposure in there. We have actually reduced that over the last six months. It is something called a 'diversified growth' fund. I am trying not to use too many acronyms here. Again, that is more diversified and itself invests across equity markets, fixed income markets and currency markets.

They are the major exposures we have. By far the biggest exposure we have is to the equity market, as I mentioned.

Gareth Bacon AM: How does that compare against other LGPS schemes?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): I am not aware of any 'standard' local government pension funds. Everyone has their own standard. There is not a benchmark, if you like.

However, if I look at what we do, which is slightly unusual in that space, we probably have a slightly higher appetite for some of the less liquid assets, things like private equity and infrastructure. We will be increasing our property portfolio. At the moment, we are relatively under-invested in property. Also, that internal management that I mentioned is somewhat different to most of our peers in the group.

As Susan [Martin] mentioned earlier, probably the most substantial difference between us and many other funds is the fact that we do have an explicit liability management part to our portfolio. In our case, at the moment we are focused on trying to protect ourselves from rises in inflation. As you know, the pensions that we pay - our liabilities - are linked to inflation and so we explicitly try to manage that exposure, which is not that common. There is probably a handful of funds in the LGPS that are currently doing that.

Gareth Bacon AM: Our briefing tells us that you are moving increasingly into alternative debt but it does not explain what alternative debt is. Could you explain what that is in layman's terms and tell us why you are focusing more on that?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): One of the characteristics that we get from things such as equity investments is a relatively high expected return. One of the drawbacks of things like equity markets is that there can be quite a lot of volatility and a lot of risk in them and, as we have talked about, you can see macro events having a big impact very quickly. Whilst I have said we have been reasonably well insulated from that, we think we can do that better.

'Alternative debt' just means we are not looking at traditional company bonds, large multinational companies issuing bonds or governments issuing bonds. These tend to be smaller enterprises. It may be lending money, for example, for companies to buy aeroplanes or ships with shipping finance and aircraft leasing. It also might be lending to small and medium enterprises, in which case we would be doing that with a manager. We are not underwriting that ourselves, of course; we are investing with a partner.

We have publicly announced that the largest allocation we are making at the moment is to a group called Apollo. What we are investing there is across the board as a multi-strategy approach. We will work with them to move the capital where we see the opportunities. That might be into small companies and lending to them. It may be lending to groups that wish to fund aircraft purchases or shipping. It may be doing things such as structured credit where there is a basket of different loans put together into a package and then we provide funding into that. It is quite a broad range of different investments.

Gareth Bacon AM: What does that do to your risk profile?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): The risk with those is slightly lower if you measure it on a short-term basis compared to equities. One of the most common risk measures that people talk about is volatility, which is just a measure of how much the asset is going up and down over periods. The volatility of these credit investments is probably about two-thirds of that of an equity investment.

The main risk that you have in these spaces is credit risk or counterparty risk. What you really need to do is to make sure that you will get your money back from the people you are effectively lending it to. It is a very different type of risk and it is a risk that we think we can manage by working strategically with these partners, as I have mentioned, to do that analysis and to understand who we are lending the money to, where we are in the structure and how soon we get paid our money back. In an equity investment, you are at the very bottom of the pile. If something goes wrong with a company, the last person to get their money back is the equity owner. In these investments, we are slightly higher up that pile and we are less exposed to failure in those companies.

Darren Johnson AM: This is moving on to oil, gas and fossil fuel investments. We have 1%, I believe, of the pension fund's assets held directly by companies that extract gas and oil. Is it not the case that with these values seeming to be set to fall, you are actually risking exposure of the assets? Even though it is comparatively small over the overall portfolio, it is still significant sums financially. Are you not risking exposure?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): When we look at any investment that we make, obviously the key determinant for us as to whether we choose to make the investment or not make the investment is balancing the risk and return expectation from it. Certainly, when we are analysing a company that may be involved in fossil fuel extraction, of course we would naturally look at the extent to which it has reserves that can be extracted, the price at which it is going to cost to get them out of the ground and the extent to which there may be a market for those.

The vast majority of that exposure you mentioned - around 0.9% of it - comes from our passive equity exposure. Earlier on I talked about how in some cases we choose just to track an asset class. When we do that, we buy futures.

The best example might be that if we wanted to have exposure to the United Kingdom (UK) equity market, we could go out and buy individual companies or stocks or we could buy the Financial Times Stock Exchange (FTSE) or the whole stock market. The reason that we do that on a passive basis is that it is very cheap and it is very liquid. These global indices have a proportion of them with companies such as Shell, BP, etc, in them. The large majority of our direct exposure to fossil fuel extraction is as a consequence of those index investments.

What we could do is consider investing into an index that does not include those companies, but one of the reasons we invested in indexes in the first place was because of their liquidity and our ability to move in and out. There is not a very well developed market in fossil fuel-free indices. Therefore, at the moment, whilst it is something we will continue to monitor, we do not feel that that is a good choice to make.

We have made the decision, to go back to what I talked about, in our internal equity portfolio. We do not invest in any oil extractors in that portfolio today because our assessment of the balance of risk and reward against the other companies that we can invest in has resulted in us not investing in those fossil fuel extractors.

Darren Johnson AM: It is just the ones that are part of the index?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Yes. We also invest with some external managers and they have a mandate. A very small part of that comes from those external managers investing on our behalf.

Darren Johnson AM: There appears, though, to be a momentum growing in terms of the number of large institutions and pension funds and so on worldwide now divesting from fossil fuels. The research we have been given here puts it at £2.6 trillion either moved from or planned to be moved from fossil fuels. This appears to be gaining momentum. Is this not something that you should keep a close eye on and consider very carefully at the Board?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): We do keep a very close eye on it. One of the things that I believe is in your briefing pack is that we have recently formed a Stewardship Committee within the LPFA. That is a committee that I chair. It is a committee that various members of the organisation sit on. That is very much because our belief is that we are here to be good stewards of the investments that we make. We are engaging with companies that we invest in. We are, obviously, doing our desk-based analysis as well in terms of what the risks and potential rewards are. It is something that we keep a very close eye on and will continue to keep a close eye on.

Darren Johnson AM: I do not sit on that committee myself, but I believe the Assembly's Economy Committee made some recommendations around this very issue for the LPFA. Have those been considered and discussed at Board level?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Yes. This September we had a discussion around that.

Darren Johnson AM: What was the outcome of that?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): It was to reconfirm our existing stance on this, which is that we are a responsible investor, that we believe that the best way of deploying that is through our stewardship activities and that our first and foremost priority is to deliver on the returns in a risk-managed way that we need to pay pensions. From that perspective, we continue to engage in that way in our underlying investments.

I believe that in Sir Merrick's response after appointment there were some comments on that and that is exactly the position that we maintain.

Len Duvall AM (Chair): We will go back to issues of governance and transparency again. Last time, the previous Chairman who was before us raised issues with us and we raised issues with him. We voiced our concerns about the practice of the potential issues with co-investment. We understand that you have a very clear position on that now. We also understand that the Mayor has made it very clear to your organisation about how we should avoid co-investment. How does that work in practice, then? What are the inputs into that co-investment to avoid that practice?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Susan [Martin] can talk about the operational way that we make sure that there are no conflicts, although with the previous Chairman there were no conflicts.

There is very close monitoring that we have to do. All of us in public life have to make clear declarations of interest, what we are involved in, if we happen to have shares that the LPFA also has - Chris [Rule] has talked about the buy-to-hold policy - and if we held equities in similar companies. It is a very thorough process. We are very alert to the concerns that were raised here in the past. We have always taken corporate governance very seriously but, in those particular circumstances, we realised that we had to review to make sure that there were no potential conflicts. As I said, there were none in practice.

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): We have a very detailed conflicts policy, which has been reviewed externally as well. We have been assured that it covers every concern. As Sir Merrick said, when we on-board new board members, we ask for declarations of interest and we explain our investment processes. We continually ask for that to be updated, in particular when we are doing our buy-and-hold. We raise that each time we discuss that with board members. We also, obviously, have the same process for senior officers as well and for the investment team.

We are absolutely alive to that and I would echo Sir Merrick's comments. There has been no conflict and we work extremely hard to ensure that that remains the case.

Len Duvall AM (Chair): It is very good to hear that.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): One thing I would add to that is that I have spent most of my career working in regulated businesses and I would say the processes that we apply are very similar. That has been quite valuable - as with the earlier part of our conversation - when we are in the midst of looking to apply much of what we do to a regulated context. This is one of the areas that has been one of the most simple things to resolve because the practice we have today is comparable to a regulated setup. From my perspective, it is a very robust process.

Len Duvall AM (Chair): It is good to hear that. Can you show me and demonstrate to me how you have carried that on into the partnership with Lancashire in terms of the new structures that have been set up with the new chair and those people - including a new role for the previous Chair, Edmund Truell - in doing those? I would like to see how you have taken that approach and pushed it into your new partnership working approach. If you could share that with the Committee, I would be grateful.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Shall I deal with the advisory board?

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): Yes.

Len Duvall AM (Chair): Just the last bit on the governance issues, just to wrap up. We mentioned the stewardship group. Has the Local Pensions Board, which was the change in legislation, added to any benefits around transparency and those issues? I am a bit unclear about its role. How does it work?

Susan Martin (Chief Executive Officer, London Pensions Fund Authority): You are probably not the only person that is unclear about its role. One of the things at the LPFA that we were extremely proud of was our engagement with our members and our employers. For a good number of years, my predecessor, Peter Scales, set up member and employer panels, which we worked with very closely. When the Government came up with a new governance structure for the LGPS funds, we were told that although we had been recognised for our excellence in governance, we had to close down those two organisations, which were working so well, and set up a Local Pension Board.

We have done that and we are delighted that we have some really excellent people, both employer representatives and member representatives. We have decided that we would have an independent chair. We had a choice whether to have somebody within the organisation or whether to have an external person and we chose to have an independent chair to really hold us to account and to help the Local Pension Board act as a scrutiny board for us. We have had some training and we have had a first meeting with them and they have looked at all our financial reports, our investment reports, our administration reports and all our key performance indicators (KPIs). We will be working very closely with them and taking their input on how we can communicate and improve our engagement with our members and employers. We have been working with them about the LLPP partnership process but also taking on board from them their comments about our service and so we hope to make it work well.

Caroline Pidgeon MBE AM: Chris, there was something you said earlier. You mentioned something that would be in our briefing today. You said something and I cannot remember what it was. You said, "That you will have in your briefing today". Have you seen our briefing? Is that what you are saying?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): No, I was asked to prepare some reports to send across to City Hall and so I am assuming that it was passed on to you.

Caroline Pidgeon MBE AM: It was information to prepare? OK. I am sorry. It is just that occasionally in the past we have had briefings passed on to our guests.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): No, not at all.

Caroline Pidgeon MBE AM: I know you were given an outline. I just wanted to check there had not been an issue arising there.

I want to talk about the issue of investing in housing and infrastructure, which is something I know many Members are interested in. You said earlier, Chris, that less than 10% of your funds are invested in infrastructure and have tended to be in renewable energy, but I guess some of this is more the Board's decision and a political decision.

Maybe I could start with Sir Merrick. You are doing a partnership with Manchester around infrastructure. Is that going to perhaps delay further any of your investment in housing and other infrastructure or is it going to speed it up?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): No. We announced with Greater Manchester - which is the largest LGPS member - that we are setting up a joint infrastructure fund and each putting in £250 million. It is not sitting unused in a pot somewhere but it is available up to a total of £500 million, and we are looking for others to come in and join that fund. It is a very simple structure, unlike the infrastructure platform. We announced that nearly a year ago, did we not? It has taken a long time to get our investment out of the door. We, happily, got our timing right and announced it a couple of days ago. That is in biomass investment and Chris [Rule] can give you more details if you want to know about that.

As you say, there is infrastructure and housing. I always think it is perhaps an artificial separation, but they are seen as being separate. Both are areas that we have started to do. You will be aware of the Pontoon Dock project, which is for nearly 300 homes at about £40 million, is it not, or £50 million?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): It is about £55 million.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Yes, £55 million. That, again, has taken a long time to get going and a lot of careful involvement by the investment team to make sure it is the right deal structured in the right way with the right returns at the right time. Clearly, we are interested in housing and certainly the rental income stream for pension funds can fit very well with our long-term commitments to pay out while people pay their rent. As a class, we are certainly interested in looking at some scale in the future, along with other partners within the LGPS, Manchester and others, and indeed Lancashire.

The Chancellor talked about wealth funds in a way that made it look as if the Government could somehow expect the LGPS to be funding - I do not know - Crossrail 2 or High Speed 2 (HS2) or something like that.

Caroline Pidgeon MBE AM: Is it not a possibility that you could invest in Crossrail 2?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Certainly the Government cannot instruct trustees of pension funds in what areas - quite rightly - we should be investing in. The trustees look to our professional experts to look at proposals.

What has happened in the past is that the LGPS has not been seen as a potential partner in large infrastructure projects and that is something we are trying to address with other members of the LGPS so that we are party to some of these large projects that other pension funds from around the world are falling over themselves to be able to invest in. We think that is right and proper and indeed we think the LGPS can bring something very powerful so that when the British Government then looks for overseas investment, it has partners that understand their areas sitting alongside the Government. That is part of our vision for the future. There is no shortage of money around the world chasing a shortage of good quality infrastructure projects and that is absolutely clear.

However, again, we have to build our expertise. You can pass this, clearly, to advisers to do it, but our belief is that we need to understand and we need an in-house team that understands infrastructure investment, which could be in transportation, could be in power generation or could be in ports, airports and things of that sort. We cannot simply rely on others - or, indeed, be able to afford to pay others - to give us that advice. That is why we are building teams in that area.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): It comes back to the first part of this conversation. These are exactly the kinds of areas where scale really matters: to be able to invest in some of these larger-scale infrastructure projects, as an example, and do that in a cost-effective way and where we have control.

We cannot just put £10 million in. We need to be a significant player so that we are one of the members around the table making decisions. Even at our scale, where we are today with almost £5 billion, if we were to allocate, say, 10% of our fund to infrastructure, it gives us £500 million. If the average investment is £100 million, we can do five investments, which is not very diversified.

The scale allows us to make these investments in a more risk-managed way because, rather than making two or three investments and relying on just two or three, we do not have to put all our eggs in one basket and we can have a more diversified portfolio: we can have some transportation assets, we can have some energy assets, we can have some utilities or a combination. That then means, as we were talking about earlier, rather than just going up and down with the markets, we can hopefully plot a smoother path to being fully funded, which is our objective. Scale really helps at this point and that is where the partnership --

Caroline Pidgeon MBE AM: Working with Manchester and others gives you the scale so that your investment is of a size that you are at the table to direct that, yes.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): It brings extra expertise in. The transaction team - if I can call it that - and the individuals working on the ideas are shared between LPFA and Manchester in that case and we do not have to go and hire people to do that because Manchester have some and vice versa. We can work together, share the ideas, share the investment and, hopefully, share the rewards from that investment.

Caroline Pidgeon MBE AM: You have talked about biomass and I am not aware of that, but I want to think about specific projects you have in the pipeline. Are there areas you are thinking that you may invest in? Crossrail 2 could be one of them. Is that the sort of thing that you really think you would invest in? How can you make sure there is a fair geographical spread if you are working with Manchester and possibly other places so that the London Pension Fund is actually going to be investing in London?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): It is going to be difficult for Chris --

Caroline Pidgeon MBE AM: That is for you, yes.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): -- because there are, clearly, conversations and negotiations going on around potential investments in some of these areas.

The mandate for the £500 million with Manchester is that the majority of it would be invested in the UK but still, because of diversification and spread, potentially, some of it could be invested overseas. It is difficult to then start saying, "X% should be in London and X% should be in Manchester", but quite clearly Manchester very definitely has a geographic base and we very definitely have a geographic base. If we can find good projects that fairly represent that, why would we not want to invest in those areas?

This is very difficult. It is back to the scale argument again. If you are a London borough - and every London borough has its own separate fund within the scheme - it is very difficult for you to invest in your area because you will be certainly accused of some conflict of interest or that you are investing for other political purposes, perhaps, and that it is all too parochial, in a sense.

If you have scale and you are working together perhaps up to the level of £40 billion, which would not just be Lancashire or Manchester or London but would be a group way beyond that, you can be investing on home territory for very good reason: because you are part of a grouping that has pooled its money together and you are driven by the right returns on the right sort of proposals. It becomes more likely that London will benefit if we are a key partner of a larger pooling of investments because - let us face it - if the world is looking for good infrastructure investments, good infrastructure investments in a country that has the rule of law, has a stable economy and has London at its very core is a powerful set of opportunities.

Caroline Pidgeon MBE AM: You mentioned earlier Pontoon Dock, at which the previous Chairman [Sir Edmund Truell, LPFA] told us he was very keen to get investment funds to build housing in partnership with the GLA. It has taken two years to get there. Why has it taken so long and what are you learning from that for future housing investment?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Chris can perhaps add what he is able to say about the detailed practicalities of that particular project.

What we need is a pipeline of projects. Simply by doing Pontoon and concluding that and going into construction and then going to the next one, we cannot do a new project every two years. It does not make any sense at all. What we want is a pipeline and we can see the next projects coming up. There clearly is a difficulty in that because of the requirement of the Mayor of London or under the name of the Mayor of London. There is lots of public land. Clearly there are policies to dispose of that or to put that value into projects. That is something we are committed to being part of, but also no doubt I am sure the advice may well be that the Mayor has to achieve the best value for that land.

I suppose in other countries we would be sitting alongside a mayor who has land, where we have the ability to invest in that and it would not be that we would have to go to competitive tendering on each project. That inevitably holds it up because we have to be successful in that tendering policy against others who may well be able to, frankly, pay more. They may have other disadvantages, but they may have the ability or willingness to pay more. Whether the law at the moment requires that, that is clear, but we would like to see if there was some way, whether through a legal structure, that we could be doing far more regular ongoing business as a key part of the mayoral family.

Caroline Pidgeon MBE AM: Did you want to add any detail, Chris, on that?

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): No, Sir Merrick has covered off nearly everything.

The only other piece that has been complicating this factor is the wonderful planning laws that we have here and, again, it is not an LPFA-specific thing. There was a period of tendering for the land, which we won eventually; it was a drawn-out process in some ways. Then, because of the nature of the way that we had to tender, to come in with a number of other private sector partners, we had to go through the process of ensuring we had the commercial arrangements set up in a way that we were comfortable was going to serve our needs as much as it was going to serve their needs. That was part of the process. Running parallel to that and where we are now is the planning process and so, clearly, we needed to be sure that we put a planning application in that was going to allow us to meet the financial returns we expected from that investment. That has taken a lot of time because of the complications of the planning process in this country.

Caroline Pidgeon MBE AM: That is helpful. Thank you for that. Then you want to have this pipeline of projects. What I do not understand is why you did not get involved in the Queen Elizabeth Olympic Park and the massive homebuilding that has gone on there following the Olympics and Paralympics. Would that not have been an obvious place to have invested?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): In East Village?

Caroline Pidgeon MBE AM: All the housing that has been built out there, yes.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): The Delancey/Qatari. That particular deal was picked up --

Caroline Pidgeon MBE AM: Did you look at it at all or was that --

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): No. This was some years ago now, of course, and it was conducted by the Government, I believe. Certainly, when the previous scheme collapsed or the funding of it collapsed, then that was done at a sort of national level.

Chris Rule (Chief Investment Officer, London Pensions Fund Authority): Yes. I have to say that I have no personal experience. From what I know from the outside, as Sir Merrick said, it was a deal that was done several years ago. Part of the problem that we have alluded to is that at the moment there are 89 doors to knock on including the LGPS. The Government does not tend to knock on any of them because of that and so it is not something that I believe we were invited to join. Let us put it that way.

Caroline Pidgeon MBE AM: What about this issue? You talk about rental stream, which is a very sensible way to move forward with your investments. Some London boroughs – Barking and Dagenham, for example - have done some work with investors - I do not know what they are; hedge fund investors or whatever - in terms of building housing that is all privately rented. They are getting a fantastic return and they want to build more.

Is that something you could be really getting into? It would help with the housing crisis in London and, also, you would get a good return on your money.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): I was with the Leader of Barking and Dagenham only this week --

Caroline Pidgeon MBE AM: There is some great stuff that they are doing.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): -- talking in East Village and looking at the private rented sector (PRS) project there that you have just talked about. Clearly, it is of real interest, as it is all for rental. None of it is for sale and there are different tenures of rental, of course, but it is a very attractive, persuasive scheme there and there is interest. Certainly within a wider grouping, it could well be something like either a future pooling arrangement or the LGPS operating in a sector leadership role about a clearing house for projects.

Could there be a front door for major projects? The range of Barking and Dagenham proposals or potential proposals are enormous with many of hundreds of millions of pounds required, but could there be a front door that large projects could go through so that then we could look to the funding from the whole 89 with - the figures change - at least £200 billion worth of investment currently? That becomes a very different set of opportunities and it would work very well for London boroughs and in other parts of the country and, indeed, for major infrastructure projects as well. We cannot do that when we are simply just the LPFA or other members of the LGPS working separately or the London boroughs working separately.

Caroline Pidgeon MBE AM: That is where the Mayor and the Government could help to try to influence that, as well as the work you are doing to get the pension funds working closer in that arrangement you describe.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Yes. They could help by being vocal about their expectations and that we have to work together. London is very good with 33 - probably with us 34 - pension funds, all independent and all sovereign. That is sensible: we have to work together.

Len Duvall AM (Chair): Can we just go back to that question? Why is it then that it has not happened to date? It does make sense in pooling, does it not? Your partnership working with Lancashire is at a higher level, but what is stopping those sovereign bodies coming together where it makes sense? You made a very good, reasonable argument for why people should come together and invest in terms of others and so why is it that we are so poor and have failed to do that here in London?

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Sovereignty is important. Several of us around the table have been Leaders of borough councils and we know that our pensions committee is independent and does its own thing and sees its responsibility as the trustees as very important and quite rightly so.

Actually, what we were talking about at the very beginning is not changed by working together. LPFA's relationship is still going to be the same; Lancashire is still going to be the same with a pension fund with Lancashire County Council. The boroughs could work together. It would be wrong to pretend you can work together and things do not change. They have to change and they have to be different, but you can operate in an appropriate way where elected members take the right policy leadership decisions over the pension fund. It is the classes of investment and it is priorities and things like that and passing over the day-to-day handling of it, as we are proposing to do with Lancashire. That would work very well.

The boroughs of course have this common investment vehicle (CIV) proposal, which is going live. It is not the same as what we are doing because it is far more by choice that they can come in and not come into various parts of the CIV. With us, it is saying, "No, we are putting everything on the table, we are pooling everything", and then collectively we will decide how to operate that funding. It is different model, but the boroughs have come together to do that.

I do not know whether my colleagues would agree and probably it is better not to ask them, but as we go forward I would hope that we could work very well with that CIV because maybe we can help the CIV on infrastructure. If there is going to be a London infrastructure CIV or element to that CIV, why do we not see whether that can work with our infrastructure model?

Len Duvall AM (Chair): We can try to help with that. Maybe the next time we have you back, we will have a part about that infrastructure development issue and invite some of your colleagues to see why there is such resistance and to see what can speed up the process.

Sir Merrick Cockell (Chairman, London Pensions Fund Authority): Lord Kerslake is its new Chairman.

Len Duvall AM (Chair): That will be quite interesting and we will look at that. There may well be some follow-up that we are bound to exchange in terms of correspondence. I am grateful for the correspondence you passed after the Confirmation Hearings Committee and I am very grateful for the way that you have answered our questions. Thank you very much.