Dear Boris

**London Pensions Fund Authority**

Thank you for your letter of 20 January 2014 regarding the London Pension Fund Authority (LPFA). As you will be aware, we invited Mr Truell back to the GLA Oversight Committee on 12 March to discuss issues arising from our initial discussion in December 2013. This letter summarises the Committee’s views based on those two evidence sessions, your letter and follow-up information provided by Mr Truell’s office. It focuses, first, on the specific issue of co-investment and, second, on broader issues of governance of the LPFA.

**Co-investment**

The combination of a largely private sector board drawn from the investment community and a public sector ethos with its rules about transparency and conflicts of interest has been problematic for LPFA. This tension was clear at the first meeting we had with Mr Truell when we invited him, one year into the job, to provide the Assembly with an update on the health of the fund and the changes he had made.

At that meeting, Mr Truell raised the issue of co-investment. Co-investment occurs when two or more investors share ownership of an investment. In some cases, there is a risk that this may result in a real or perceived conflict of interest. Mr Truell told the Committee that approximately ‘half the LPFA Board Members had some aspects of co-investment with the Fund, in many cases because of other pension funds that they sit on’; he stated that it was an area of frequent discussion, and was interested to hear Assembly Members’ views.

Following that meeting, you wrote to the Committee to clarify the LPFA’s position on co-investments, saying that ‘there are currently no co-investments between the LPFA and Board Members’. You also said that since Board Members are active in investment markets in other capacities – for example, if they chair other pension or investment funds – there would inevitably be professional crossovers, such as using a common fund manager. And you offered us an assurance that there is not a risk of personal conflict or any real or perceived financial gain for a Board Member.

In order to explore this apparent inconsistency and seek some reassurance about LPFA’s processes, the GLA Oversight Committee invited Mr Truell back for a further discussion on 12 March 2014, along with Mr Bob Scruton, Head of Public Sector Pensions at the Pensions Regulator.

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It is clear that the inconsistency arose as a result of confusion over two types of co-investment. We hope that the Committee’s work has helped to clarify the issue and contributed to a common understanding of the differences as we perceive them:

**Co-investment as an individual** - Board Members could seek to make personal gain by recommending the purchase by the LPFA of shares in an entity that they (or a related party) already hold shares in; or, after the LPFA has chosen to invest in an entity, personally (or through a related party) purchase shares in the same entity.

**Co-investment as a trustee of other investment bodies** - Board Members could seek to make gains for other investment bodies where they are trustees by recommending that the LPFA invests in the entities where the other investment body is a shareholder; or recommend that other investment bodies buy shares in an entity with the knowledge that the LPFA has recently chosen to invest in this entity.

At the meeting in March, the Committee sought assurance that the right processes were in place to manage any conflict of interest and that LPFA Board Members were not benefitting financially from the investment decisions of the fund.

We were pleased to elicit a commitment from Mr Truell to avoid the practice of personal co-investment:

“I can assure you that there are today none, and it is not in the foreseeable future envisaged that there will be any, individual co-investment alongside the LPFA” (p7)

**Recommendation 1**

The Committee cannot see any situation where it would be right for an individual board member to financially benefit in personal investments from knowledge gained while executing his or her duties at the LPFA. Clearly, this principle could only be applied to Board Members for the duration of their tenure at the Authority.

The Committee does accept that some co-investments between the LPFA and other investment bodies, where an LPFA Board Member is also a trustee of the other body, may be appropriate, so long as all governance and conflicts policies are strictly adhered to and the relevant disclosures are made by all parties. But these should be kept to a minimum and not become “normal practice”.

**LPFA governance**

a) **Board composition**

Since joining the LPFA, Mr Truell has made several changes, not least to bring in increased investment experience on the Board. In this, the LPFA is unique in the context of the LGPS. Most other local government pension committees are made up of a majority of elected councillors; some have little or no outside experience and expertise.

We understand Mr Truell’s direction of travel and support the recruitment of Board Members with experience in the investment market. But there is a question in our minds about whether the pendulum has swung too far.
Recommendation 2

LPFA should now be looking to improve the checks and balances in place for effective governance of the LPFA by including more people with experience of public sector oversight on its board.

b) Conflict of interest policies

We were pleased, during the 12 March session, to be able to suggest some improvements to the LPFA’s conflict of interest policy as follows:

- Board Members’ declarations of interest should say ‘none’ if there are none (there was previously at least one declaration left blank);
- the Board Secretary should ensure that there is adequate and consistent disclosure by all Board Members;
- the policy should clarify that Board Members do not need to publicly declare interests which are below one per cent of total issued share capital (or £25,000 if that is lower), but state that the Board Secretary will still keep a record of these interests in case he or she needs to make the investment team aware of them; and
- the Board Secretary should publish Board Member expenses prominently on the LPFA website.

Clearly, transparency is less of a priority in the private sector where the governance arrangements do not always require such a full disclosure of interests. Given the melding of private and public cultures at LPFA, we think that it is important to reassert your expectations around transparency. These were helpfully summed up in your letter to John Biggs about this Committee’s recommendations on making the GLA more transparent: “This is an important part of my agenda and I will continue to emphasise to the GLA Group the importance of prioritising transparency”.

We also discussed the issue of whether it is appropriate for the Chair of the LPFA to hold the positions of chairs of the Investment Sub-Committee and Investment Committee. The Committee appreciates that you are continuing to review the membership and terms of references of both of these bodies. While doing so, we would encourage you to look at whether it is right for the Chair of the Authority to chair either committee and in particular, to reassure yourself that in carrying out these roles, the Chair is not exercising executive responsibilities.

Conclusion

We appreciate that the issue of co-investment has arisen over differences between sectors and cultures. As Mr Truell told us, in the private sector, it is seen as desirable and in some countries, government regulations positively encourage the practice.

There is also the issue of language. While we oppose the practice of co-investment undertaken in an individual capacity, we accept that co-investments as trustees may be inevitable given the fact that most of the LPFA Board Members are chairs or trustees of other investment

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1 Letter from the Mayor, 24 September 2013, GLA Group Transparency
funds. Any move to eliminate such co-investment would reduce the investment options open to the LPFA, which is clearly undesirable.

Recommendation 3

As the Pensions Regulator suggested, to avoid future confusion, the LPFA should use a more appropriate phrase to describe the acceptable practice whereby Board Members, as trustees of other investment bodies, make decisions to invest in the same vehicles as LPFA. This should be clearly defined in the LPFA co-investment policy.

Finally, we acknowledge that the LPFA is going through staffing and other changes and that it is in the process of tightening decision making process and internal controls. We also highlight that the Pensions Regulator’s view was that the Fund was implementing good practice. We therefore encourage you to ensure that the LPFA builds on its work and continues to strive for high standards of transparency and accountability.

Yours sincerely

Len Duvall AM
Chair of the GLA Oversight Committee