MODERN INVESTOR

LOCAL GOVERNMENT PENSIONS

Examining the funds owned by the Local Government Pension Scheme

LAWRENCE LEVER

Introduction

Which institutions own the funds that are sold and managed by the investment management industry? This is the question that *Modern Investor* has set out to answer. It is comparatively easy to discover who owns equities – there are shareholder registers and public disclosure requirements when ownership exceeds certain thresholds. But nobody can say who owns the funds.

It is a massive undertaking to find out. Our starting point has been to uncover the ownership of the funds that have been purchased by Britain's 99 local authorities. Collectively the Local Government Pension Scheme (LGPS) manages around £220 billion, making it an incredibly important source of capital. After months of research and analysis, *Modern Investor* has collated up-to-date details of the funds that local authorities own.[1] The research shows who owns which funds[2] and how much of each fund they own. It provides both a fascinating insight into a key element of the UK institutional asset management industry but also, crucially, a helpful way of analysing issues that are of great importance to the LGPS.

Lawrence Lever
Chairman, Citywire Financial Publishers

Where you can find the fund data

There are a lot of examples of LGPS fund holdings in this report. However, some of you may want to skip the discussion of the issues and go straight to extracts of the fund data that we have collected from local authorities. These can be found in the Appendices from pages 13-18.

- **Passive investments**
- **Active fund choices**
- **Top Diversified Growth fund choices**
- **A popular active fund choice**
- **Top hedge fund choices**
- **Top property fund choices**

You will find articles on Diversified Growth Funds, Property Funds and Hedge Funds on our *Modern Investor* website (www.moderninvestor.com), each of them containing extracts of our local authority funds data.

Introduction

What does our data cover? It shows the ownership by the LGPS of:

- Mutual funds, both active and passive in all asset classes
- Property funds, listed and unlisted, closed and open-ended
- Hedge funds and fund of funds
- Private equity funds and fund of funds
- Infrastructure funds

The evidence suggests that as much as £100 billion may be invested in these vehicles.[3]

It has been a gargantuan task to crunch together all of this data. And as far as we can tell, nobody has ever yet attempted it in the public domain, let alone published the results as *Modern Investor* will now be doing, today and going forward on our website www.moderninvestor.com.[4]

For further details on the data we have gathered please see the section marked 'A Word About Our Data' (page 12). You can also find background on *Modern Investor* and its owner, Citywire, the panels below.

Background

The data that we have gathered is fascinating and highly topical.

For several years there has been an active debate over the way the LGPS is run – Hutton (2011), Hymans Robertson (December 2013), consultations with/reports of the Local Government Pensions Scheme Advisory Board ('the Board') and The Department of Communities and Local Government (March 2014). The government's belief has been that the LGPS could achieve £660 million of cost savings (a figure some challenge) through a range of collaborative initiatives.

Some suggestions are no longer on the table: for example the idea that local authorities be compelled to merge into a handful of smaller regional funds or to convert all their active fund holdings into passives. (Both, in our view, were rightly dropped).

It is clear, however, that there is continued pressure for increased collaboration between local authorities in order to save costs and increase the market clout of the LGPS. There are several initiatives well known to those in the LGPS, of which the tie-up between the London Pension Fund Authority and Lancashire is just the latest.[5]

Most recently, the July 2015 Budget included the following from the Chancellor:

The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance

Why is Modern Investor doing this?

The data we have collated should help inform the debate on the pooling of resources and perhaps the cost savings estimates – both the practicality and the realism. Moreover, there is a real need for more granularity in the overall reporting of what the LGPS owns. The website of the Board contains an enormous amount of helpful information. However, when it comes to funds, or pooled investment vehicles, to merely state that 41.1% of the LGPS assets are held in 'pooled investment vehicles' is insufficient.[6]

As you will see from the examples in this White Paper there are many individual funds – both active and passive – which many local authorities own. This may facilitate cost negotiation, with authorities collaborating more and in essence buying cheaper in bulk as some active managers themselves have suggested.[7]

GILTY PLEASURE

The Schroder Sterling Broad Market Bond fund, owned by Merseyside (£236 million) and run by two Citywire A-rated managers, is also held by Cambridgeshire (£120m), Kent (£126m) and the Isle of Wight (£95m). This fund is top of the Sterling Bond sector over 10 yrs, and in the top 10 over five, three and one years as well. Schroders have a Citywire Silver Group Rating in this sector. See page 11 for an explanation of Citywire's individual Fund Manager Ratings and Fund Management Group Ratings.

BASKING IN THE SHADOW

East Sussex and Hammersmith & Fulham have between them backed the successful shadow banking fund of funds Ruffer Illiquid Strategies . The first iteration launched in 2009 to take advantage of credit crunch distressed situations. The shares were issued at £1 and the net asset value is now £2 (June 30 2015). The duo have over £24 million in the Ruffer fund of funds.

TANGO AND CASH

Strathclyde has done well out of MercadoLibre, an Argentinian company which owns the largest e commerce platform in Latin America. As at April 2015 a £14 million investment in the company, which floated in 2007, was now worth £32 million.

Global Best Ideas

There is sufficient focus on the cost issue in the media and in public commentaries on the LGPS, some of which descends into polemics.[8] What particularly interests us are the investment ideas – the investment choices that the LGPS has made. Nor is our focus confined to the LGPS alone.

Modern Investor is a magazine and website that aims to focus on the investment decisions of institutions. Institutions are hungry for best ideas. The LGPS has lots of them as we shall see. We like to stimulate idea sharing, believing that the devil really is in the detail, in the granular fund choices that professional investors make. Our 55 journalists and audience developers are meeting professional fund buyers around the world, asking daily about their choices.

In all our publishing activities I have always encouraged our editors to ask professional investors for their fund choices. To name names. When people reveal their choices they both say something about themselves and put investment ideas out into the world; ones that others can learn from.

The Board describes the LGPS as one of the largest ten global sources of capital and one of the largest defined benefit pension schemes in the world.[9] We think that the choices that it makes ought to be seen in a global context.

Modern Investor also looks to other countries to uncover their portfolios. In Sweden, for example, we have been examining the fund choices of the giant state AP pension funds. In Chile we have looked at the fund choices of the six AFP state pension funds. Clearly, these pension funds are not identical in their objectives.

However, we believe that investing is increasingly a global practice. We need to be able to learn from one another, wherever we are based. Sharing this knowledge should also lead to better investment outcomes.

For example, what does Sweden's AP2 state pension fund have in common with Strathclyde, Derbyshire and Carmarthenshire? The answer is that they all back the expertise of London-based emerging markets specialist Genesis. AP2 had £177 million with Genesis,[10] while Strathclyde owned £207 million and Carmarthenshire £154 million.[11]

This in turn leads to another key rationale behind this project. *Modern Investor* is published by Citywire, the independent financial information group **(see page 11 for details on Citywire)****.**

Citywire's aim is to help investors make better investments.

Transparency

Moreover, transparency must be a good thing – in the right hands and for the right purpose. It sheds light on actual decisions, right down to the individual fund level. Each of these decisions has a rationale, a story if you like, one we can learn from:

Why at least fourteen local authorities back the M&G UK Companies Financing Funds* or nineteen of them the Unite Student Accommodation Fund?**

Why have 20 local authorities got over £2.7 billion invested in three diversified growth funds?

And on the passives front, where there is a four-way competition between LGIM, BlackRock, State Street and UBS, why do some authorities choose one in preference to the other?

Why has Enfield committed $110 million to funds run by global private equity group Adams Street Partners since 2003 and how well has it done after fees?[12]

Local authorities have around £750 million invested in a total return fund whose three year numbers are poor relative to peers. Why is this?[13]

** See our graphic on page 16*

*** See our article on Property funds for more detail*

Tales from the data

What we are not aiming to do is to replace anyone's investment decision-making with our own views. Rather, we want to highlight interesting aspects of the local authority data in the hope that this will prompt debate and discussion. Here, in no particular order, is a series of nuggets drawn from the local authority data we have collected, combined in some cases with our own data on individual fund manager performance.

Missing Majedie

There are over 1,200 pooled funds in the local authority funds data which we base this White Paper on. Just seven of them begin with the name Majedie. Why is that relevant? Because this boutique has several AAA Rated Citywire fund managers whose risk adjusted performance puts them near the very top of our database which tracks the performance of over 13,000 individual fund managers. So chapeau to Westminster, which has £256 million in a Majedie fund (UK Class B) run by a group of AAA rated Majedie fund managers. Hammersmith and Fulham take a bow for the £78 million in the Majedie UK Focus fund, run by manager Chis Reid, whose risk-adjusted performance over the past three years makes him the ninth best performing manager in our fund manager database. For the record, in the local authority data we can see that Surrey and the Isle of Wight are also using Majedie.

Woodford versus Barnett

The retail funds industry was all guns blazing a while back over the departure of Neil Woodford to set up his own asset management firm. AAA Rated Mark Barnett took on the great man's mantle at, inter alia, the Invesco Perpetual Income fund. How does this play out in the local authority funds data? The answer could be expressed as a one-all draw. Welsh local authority Rhondda Cynon Taf, which we have noticed making some canny choices, has £133 million in the Barnett fund. Woodford meanwhile is also owned by just one fund in the data – Kent. It has £216 million in CF Woodford Equity Income.

Tracker Domination

Just two out of the top 20 largest funds in the overall local authority portfolios are not pure tracker funds of some description or other. The largest exception is the Pimco Absolute Return Strategy Fund, which Strathclyde has over £1 billion in and which seems to be a private fund. The only other non-passive fund to feature is an LDI Solutions product for the London Pension Funds Authority of over £500 million run by Insight, the BNY Mellon-owned asset management group.

Tales from the data

European equity domination

The march of the trackers continues even in the case of European equities. The largest active exposure we could find was Blackrock Ascent Life European Equity fund. Torfaen local authority has £313 million invested in this fund, which 'aims to achieve returns that are on average 1-2% per year above the FTSE All-World Developed Europe ex-UK Index while aiming to control risks and cost'. After that, you had to go down to two Fidelity European funds managed for Dundee and Teesside, at £86 million and £43 million respectively. Fidelity and BlackRock have a handful of Citywire Fund Manager Ratings for their European equity capabilities as well as Gold (Fidelity) and Platinum (BlackRock) Group Ratings in the asset class. There was a flicker of excitement when we pulled out Alken Absolute Return Europe, owned by Hampshire and run by the Citywire AAA Rated manager Nicolas Walewski, a favourite of some (but not all) European fund selectors . However, Hampshire has just £9.3 million that we could find in this fund.[14]

Fixed Income with a difference: FIGA and FIGO etc.

These two acronyms above stand for Fixed Income Global Alpha and Fixed Income Global Opportunities – both run by BlackRock. FIGA is a hedge fund for which very little public information is available – the London Pension Fund Authority has £183.9 million invested in it, while more recently it has been purchased by other local authorities. FIGO is a more conventional total return bond fund run by three Citywire Rated fund manager – Rick Rieder who has a maximum Citywire AAA Rating for his risk-adjusted performance, and his colleagues Bob Miller and Scott Thiel, who are AA and A Rated respectively. Bexley is one of the local authorities to have backed it (£31.9 million).

FIGA/FIGO are representative of a trend for some local authorities to switch at least some of their fixed income exposure to unconstrained approaches – a response by many institutions fearing the impact of rising interest rates on traditional fixed income. Another example of unconstrained fixed income investing is Cheshire which has £316 million invested in the BlueBay Total Return Diversified Credit fund – its largest active pooled fund exposure. Henderson High Alpha Credit (South Tyneside: £259 million) and Henderson Total Return Bond (Cheshire, inter alia, £201 million) are further examples. The latter is run by a team from Henderson, including Citywire Rated managers Bill McQuaker and Stephen Thariyan (AAA Rated in our Alt Ucits asset class).

While we are not in any way decrying the skills or resources of any of these fund managers, or the judgement of local authorities in choosing them, for the sake of balance we draw your attention to our *Secret CEO*,[15] who writes monthly for *Modern Investor*, and who is sceptical of unconstrained bond investing.

Read his article here

Get involved

We would welcome any insight, ideas, suggestions or even articles (subject to them meeting our editorial standards) by anyone at the local authorities who is responsible for managing this money, or indeed from consultants, asset managers or relevant trade bodies. This is public money so the more answers that can be obtained, the more valuable the insight, the better the outcome. I would add that contributions from experts in private equity, hedge funds and infrastructure, would be most welcome. We will continue to clean and mine the data and look for patterns.

If you have read this far, please accept my thanks for giving this important topic your consideration.

Contact us

If you work for a local authority and would like to suggest searches or interesting patterns to look for in the data please get in touch with:

- **Angus Foote, Modern Investor Channel Director**
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- **Amy Williams, Modern Investor Editor**
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- **Lawrence Lever, Chairman, Citywire Financial Publishers**
  llever@citywire.co.uk / cc: tmawing@citywire.co.uk

If you work for the investment division of a local authority and would like a visit from Citywire, email:

- **Lucy Edgington, Institutional Audience Development Manager**
  ledgington@citywire.co.uk

About Modern Investor

Modern Investor is Citywire's institutional franchise. We have a monthly magazine, a website and events. The title '*Modern Investor*' reflects our belief that institutional investors increasingly want the best investment ideas. Our mission is to find them and write about them. We also believe that institutional investors, wherever they are based, want access to the best fund manager talent in the world. *Modern Investor* seeks to bring this talent to their attention.

If you work for a local authority on the investment side and would like to receive a copy of *Modern Investor* magazine please email Lucy Edgington on ledgington@citywire.co.uk. Provided that you meet our circulation terms you will be sent the magazine free of charge.

The *Modern Investor* website is free to all registered users: www.moderninvestor.com.

If you would like to take part in any *Modern Investor* events – and again this is open free of charge to local authority investment personnel, then email Angus Foote on afoote@citywire.co.uk.

About Citywire

Citywire is an independent financial information and publishing group part owned by Thomson Reuters. We were founded in 1999 and have grown to 200 people. Our headquarters are in London but we have offices in New York, Milan, Singapore, Hong Kong and Munich. We have 13 print magazines, which are published in the UK, Europe, Asia and the Americas, along with 43 websites. Our content is published in English, Italian and German.
Citywire pioneered the tracking of individual fund managers. We have the career histories of over 13,000 fund managers who run 22,000 funds ,which are available for sale in 41 countries. Our unique fund manager data allows us to rate individual managers (Citywire AAA to Citywire +). A rating from Citywire signifies a level of outperformance on a risk-adjusted basis

We also have group ratings of fund management groups (Platinum, Gold, Silver, Bronze). These assess the performance of over 2,000 groups in 41 countries across 242 investment sectors and 25 distinct asset classes.

For more information go to www.aboutcitywire.com.

Citywire Research

Citywire has various research functions: our Asset Management Research team collates and re-verifies the information on fund managers and fund buyers around the world. Our Investment Research team analyses the fund manager data and fund performance to find useful insights for our different audiences around the world. Our Research team conducts bespoke and syndicated research projects for our commercial clients.

About Modern Investor

How does Citywire make its money?

Our main sources of revenues are advertising (print and digital), event sponsorship and licensing. We have no financial services revenues of any description.

Who owns Citywire?

Citywire is majority owned by the people who work full time for it (approximately 60% of the company). The rest is owned by Thomson Reuters and Internet Ventures, our original private equity backer in 1999.

Freedom of Information

The source of the local authority funds data is the local authorities themselves. In nearly all cases they supplied it under the Freedom of Information Act. We recognise that FOI can be a chore. We acknowledge and appreciate their help in providing the funds data.

A word about our LGPS Data

We collected portfolio details from 92 of the 99 local authorities in the UK. This White Paper is based on an analysis of 81 of these portfolios. This includes eight out the largest ten and twenty out of the top 25.

Portfolio details in almost all cases are as at 31 March 2015 or later, with the most recent being end June 2015.[16]

The data is in a variety of formats and supplied in many different forms – with or without fund identifiers or even with identifiers which are not in public usage. There is also a multiplicity of categorisations – one local authority's mutual fund may be another's private equity fund. And a multiplicity of descriptions too with the same fund potentially being referred to in several different ways.

There are necessarily a number of caveats: while we have received up to date information from fourth fifths of the local government pension schemes, we have not got all of them. Therefore any numbers of funds quoted in this report need to take into account that the number could be larger if all funds were included. Divergent fund descriptions can result in the same under-estimate of numbers.

Appendix one: Passive investments

For the majority of local authorities their biggest individual equity exposures are passive – either trackers or ETFs. Looking at the portfolios of the top 10 local authorities by size, here are some of their biggest passive exposures:

Fund	Market Value of biggest holding (GBP)	Authority with biggest holding	Also held by		
Legal & General UK Equity Index Fund	2,261,998,287	Strathclyde	South Tyneside (£739m)	Manchester (£708m)	
Legal & General North America Equity Index Fund	677,730,034	Manchester	Northern Ireland (£594m)	Strathclyde (£479m)	South Tyneside (£47.2m)
Legal & General YX FTSE RAFI AW 3000 Equity Index Fund	674,732,544	Strathclyde			
SSGA MPF INDEX LINKED GILTS ALL STOCKS INDEX FUND	637,350,239	Merseyside			
Legal & General Europe (ex UK) Equity Index	609,671,667	Northern Ireland	Strathclyde (£380m)	Manchester (£274m)	South Tyneside (£2m)
Legal & General EB Investment Grade Corporate Bond All Stocks Index Fund	571,594,516	Strathclyde			
SSGA MPF NORTH AMER EQUITY INDEX FUND	543,695,592	Merseyside			
SSGA MPF UK EQUITY INDEX SUB-FUND	446,146,445	Merseyside			
Legal & General Japan Equity Index	344,291,373	Northern Ireland	Strathclyde (£207m)	Manchester (£130m)	
BlackRock Aquila Life World ex UK Equity	270,590,499	West Midlands			

Source: Modern Investor/Relevant Local Authorities

Looking beyond the largest ten pension funds, we found that a further 19 local authorities own the Legal & General UK Equity Index fund and a further seven the MPF UK tracker. Blackrock's Aquila brand, a legacy term used for some of its passive solutions, gets 57 separate mentions.

Is it too simplistic to suggest that bulk buying of passive investments should procure a keener price than case by case negotiation? It is clear from the table that Legal & General is a huge provider of passive solutions to the LGPS. It has previously expressed the view there is not much scope for reducing further the fees being charged for passive investing. '…schemes have been successful in negotiating extremely competitive fees which we believe are the equivalent to about 0.2% of fund assets, considerably lower than the average FTSE-100 DC pension plan with asset charges of 0.36%.'[17]

Moreover, there are four main providers of passive solutions to local authorities. (Legal & General, BlackRock, State Street and UBS). Doubtless some of them compete keenly on price already. It is at least arguable that with four providers the costs of passive investments are likely to be kept very low – as indeed Legal & General has indicated.

Appendix two: Active fund choices

This table shows some of the largest active mutual fund bets taken by the top 10 local authorities with cross referencing to who else owns these funds:

Fund	Market Value of biggest holding (GBP)	Authority with biggest holding	Also held by		
PIMCO Absolute Return Strategy Fund	1,036,528,979	Strathclyde			
INSIGHT LDI SOLUTIONS PLUS	839,575,096	London PFA	Bedford (£68m)		
M&G Pooled Pensions All Stocks Corp Bond Fund	449,611,394	South Tyneside	East Sussex holds (£55m)		
HENDERSON HIGH ALPHA CREDIT FUND Z	289,206,015	South Tyneside			
Legal & General ACTIVE AGGREGATE BOND FD	270,043,360	Merseyside			
AGF EMERGING MARKETS ALL CAP EQUITY FD CLASS J	251,005,027	Lancashire			
Schroder Sterling Broad Market Bond X Acc	236,945,567	Merseyside	Cambridgeshire (£120m)	Kent (£126m)	Isle of Wight (£95m)
MFG GLOBAL FUND ACC UNHEDGED USD	230,088,696	Lancashire			
Schroder UK Corporate Bond	216,304,824	West Midlands			
Genesis Emerging Mkts Investment Company SICAV	207,882,961	Strathclyde	Carmarthenshire (£151k)	West Yorkshire (£2m)	Worcestershire (£167k)

Source: Modern Investor/Relevant Local Authorities

The final three funds in the table are all run by individual fund managers who are rated by Citywire. This includes Hamish Douglas, of the Australian Magellan group who is running the MGF fund in the table. Schroders has both individual fund manager ratings and a Citywire Silver Group Rating, respectively for the individual fund managers and sector. Funds which fall outside the Lipper Global database and/or are team managed fall outside our fund manager ratings system.

Appendix three: Top diversified growth fund choices

Baillie Gifford Diversified Growth	
Local Authority	**Millions invested**
Devon	250
Falkirk	209
Fife	160
Surrey	131
Richmond	83
Havering	78
Dumfries & Galloway	68
Sutton	41
Wolverhampton	40
Orkney	29
Total	**1089**

Newton Real Return	
Local Authority	**Millions invested**
Barnet	273
East Sussex	250
North Yorkshire	108
Bedford	77
Shetland	71
Total	**779**

These funds fall outside the largest schemes, probably because they think they can do the multi-asset investing themselves. For a commentary on these choices and alternatives to them, see the article by Jonathan Miller, Citywire's Head of Investment Research.

The Baillie Gifford fund is closed to new investors and only existing clients can add to their investments.

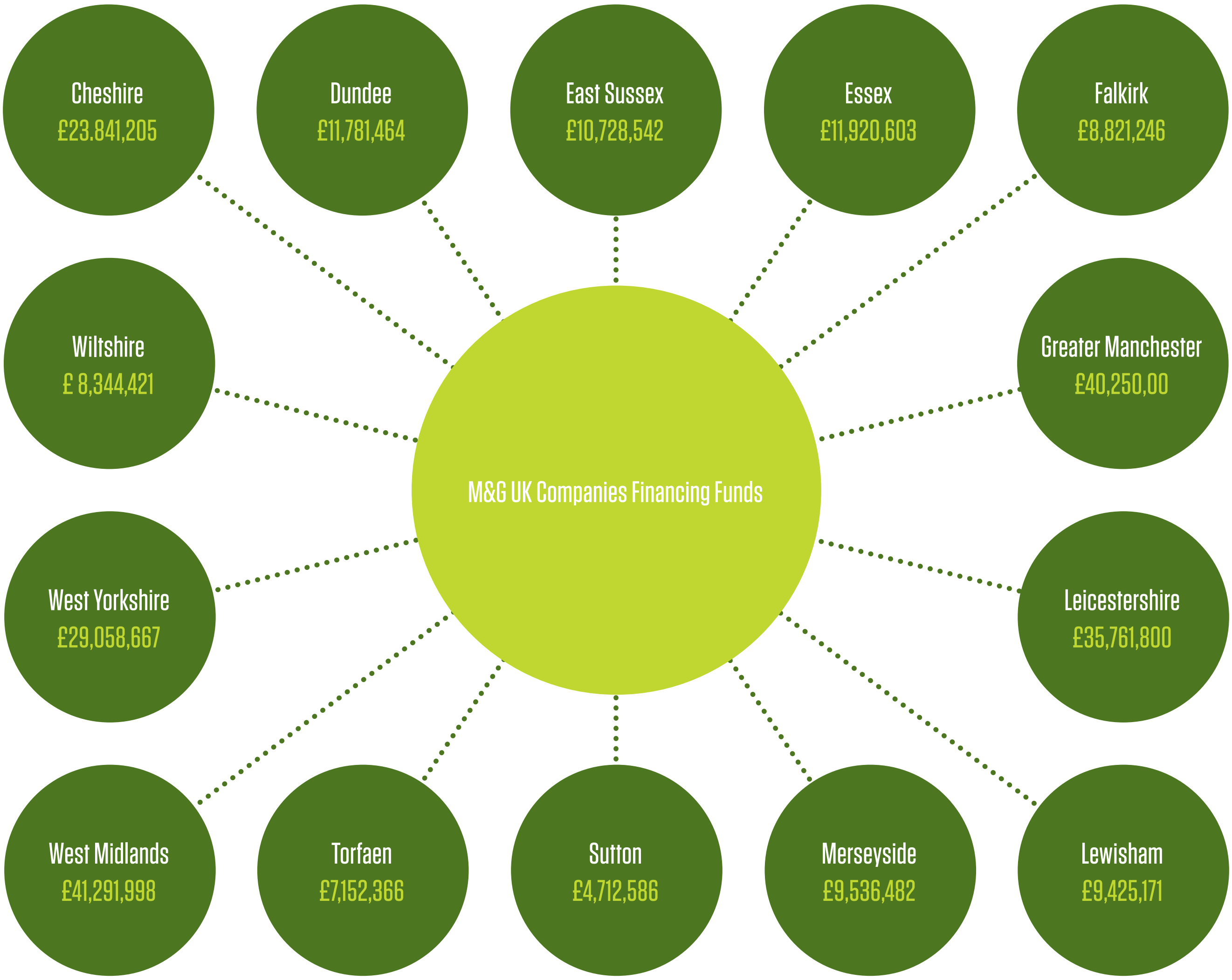
Source (all tables): Modern Investor/Relevant Local Authorities

Standard Life Global Return Strategies (GARS)	
Local Authority	**Millions invested**
Bath and North East Somerset	250
Surrey	179
North Yorkshire	91
Gloucester	79
Kingston	73
City of London	69
Bexley	69
Total	**810**

Appendix four: M&G UK Financing a popular active fund choice

M&G's UK Companies Financing funds were born out of the aftermath of the 2008 credit crisis, when bank lending dried up and many small and medium-sized companies found themselves unable to borrow. The funds lend predominantly to medium-sized established companies that are looking for stable long-term financing. Such investments are likely to play well with local authorities as they can point to a clear economic benefit in promoting growth by supporting businesses that would otherwise struggle for backing.

M&G UK Companies Financing Fund 1 was launched in 2009 and has £950 million committed. It's now closed to investors and borrowers. The second version of the fund was launched in December 2012 and is still open, having raised over £500 million.



Appendix five: Top hedge fund choices

Fund	Market Value of biggest holding (GBP)	Authority with biggest holding	Also held by		
Permal- Jubilee Absolute Return Fund	£216,264,753	Cheshire	Wiltshire (£11m)		
BlackRock Fixed Income Global Alpha	£183,916,178	London PFA			
Arrowgrass International Fund	£131,785,137	Cheshire			
Winton Futures Fund	£103,457,837	Cheshire	Merseyside (£21m)	Suffolk (£43m)	
Och Ziff Overseas II Fund	£93,272,950	Cheshire			
GOLDMAN SACHS HFP II FUND (H1)	£88,037,593	Staffordshire			
Credit Suisse IRIS Fund	£60,000,000	West Midlands			
Brevan Howard Multi Strategy Fund of Hedge Funds	£58,039,000	Camden			
BlueCrest AllBlue Fund of Hedge Funds	£54,276,000	Camden	Flintshire (£34m)	Carmarthenshire (£175k)	Worcestershire (£149k)
Davidson Kempner International	$50,000,000	West Midlands			
Taconic	$50,000,000	West Midlands			
MFO KING STREET CL A SER 1	£49,571,534	Lancashire			

Source: Modern Investor/Relevant Local Authorities

This is a sample of some of the largest hedge fund and fund of hedge fund choices. For a commentary on local authority hedge fund choices read 'Hedge funds spicing up local authority portfolios' on the *Modern Investor* website. A more detailed analysis will appear in *Modern Investor* magazine later this year.

Appendix six: Top property fund choices

Fund	Holding (GBP)	Held by
BLACKROCK UK PROPERTY FUND	494,436,187	31 local authorities
CBRE Global Osiris Luxembourg Fund	147,891,216	London PFA
AVIVA INVESTORS GLOBAL REAL ESTATE	117,019,008	Berkshire
PARTNERS GLOBAL REAL ESTATE 2011	101,449,862	South Tyneside
TPN PROPERTY A	90,507,820	Warwickshire
HERMES PROPERTY UNIT TRUST	83,872,274	Gloucestershire
FIDELITY INTERNATIONAL REAL ESTATE FUND	64,352,282	Kent
AVIVA INVESTORS UK FUND SERVICES UK REAL ESTATE	60,714,378	Berkshire

Source: Modern Investor/Relevant Local Authorities

The BlackRock UK Property fund is the most widely help property fund in our local authority data – indeed it may be the most widely held of any type of fund. The £3.1 billion fund* is the largest UK Core property fund. It is a conservatively run fund which aims to outperform the AREF/IPD UK Quarterly Property Fund Index (All Balanced) without taking huge risks. We have found 31 local authorities that own it directly and it will also appear in the portfolios of fund of property funds owned by local authorities. According to the Association of Real Estate funds, this fund has an annualised return of 8.2% over five years to the end of June 2015. The majority of its 280 direct investments are in UK retail (29.5%), followed by UK offices (27.3%).

**As at June 30th 2015*

Sources and Notes

[1] We have gathered portfolio details from 92 of the 99 Local Authorities in the UK. This White Paper is based on 81 of the portfolios which in nearly all cases were supplied by the Local Authorities themselves.

[2] In this paper we use the term 'fund' to cover all of the collective investments we have gathered data on. The local authorities themselves and the Local Government Pension Scheme Advisory Board often refer to these as 'pooled investment vehicles'.

[3] The actual figure may be higher. The Local Government Pension Scheme Advisory Board (created under statute in April 2015 to bring about positive change for the LGPS) quotes on its website data from 31 March 2014 that pooled investment vehicles accounted for 41.1% of total assets, with property pooled vehicles accounting for a further 4.1%. Based on total assets of £220 billion this would bring the total to approximately £100 billion. However, pooled vehicles may also be used separately for fixed income and equity exposure and not captured in the numbers above.

[4] Only a few local authorities publish their full portfolio holdings as a matter of course on their websites. Annual reports typically feature only the largest exposures. The publicly available minutes of local government pension fund meetings usually exclude the detailed discussion of investment choices under the Local Government Act 1972 section 100A. Mandates awarded are publicly disclosed, however it is often not possible to extrapolate with any certainty which funds might be utilised as a result of the appointment of a mandate. Some Asset Managers appointed by Local Authorities choose third party funds as well as their own. Moreover, where a local authority chooses to buy a fund, as opposed to award a mandate, the public tender rules for open disclosure, may not apply. For example, in the case of one local authority nearly around 7% of its assets in a single fund which is not mentioned in the 2015 edition of the Blue Book (Pension Funds and their Advisers), nor, in so far as we can see in its annual report, as a manager or adviser. Finally, there are subscription databases such as Prequin which provide granular information on ownership and performance of alternatives such as private equity and hedge funds. Other subscription services drill down only to the mandate and asset class level, not to specific fund holdings.

[5] Cambridgeshire and Northamptonshire was an earlier tie up. The NAPF owned Pensions Infrastructure Fund bringing together local authorities to invest in UK infrastructure has gone through the £1 billion mark and several London boroughs have formed a collective investment vehicle to pool investments.

[6] Local authorities typically provide much more detailed breakdowns of their asset allocations in their Annual Reports.

[7] Baillie Gifford in its September 2013 evidence to the Local Government Pension Scheme Advisory Board did suggest that it would be willing to 'aggregate fees' where it ran money for a single body rather than a number of different ones. 'This could produce significant savings for smaller funds. For example, for a particular active investment strategy a £50 million fund might be charged 0.59%. If through collectivisation or mergers the fund rose in size to £150 million it might cost 0.44% p.a. A £300 million fund on the same tiered fee scale might be charged 0.395%'.

Sources and Notes

[8] Those looking for a counter-balancing view to the polemics, demonstrating the professionalism and conscientiousness of LGPS members, should look at the minutes of Ealing Council when they decided to convert some of their cash, global equities and UK equities into £80 million of pooled property funds.

[9] The Board's website and Chairman's statement for the Board's Annual Report 2014, published April 2015.

[10] Information on AP2 as at 31 December 2014.

[11] Nor is this an isolated example. For example, we found Partners Group, a key provider of private equity solutions to local authorities, including the largest scheme Strathclyde, also in the portfolios of institutions or professional fund buyers in Latin America and Germany.

[12] Enfield is singled out here because it has provided very detailed information on its private equity commitments with Adams Street, suggesting that it has done well gross of fees, particularly in the more mature funds it backed. IRR performance over recent years is too early to measure.

[13] We have not named the fund because there may be good reasons why the authorities continue to hold it, such as that it serves a place in their portfolios or its lower risk profile than competitors.

[14] We are not providing detailed information on Hampshire as it has an outstanding tender process for its alternative investments. One comment we would make however is that, according to a hedge fund expert who has seen their portfolio of hedge funds, it shows considerable sophistication, blending some of the larger hedge fund groups with much smaller, but very successful, niche ones.

[15] The Secret CEO is a former Chief Investment Officer and Chief Executive of an asset management company.

[16] Portfolio details for Manchester in so far as they have been included are up to 31 March 2014.

[17] Legal and General responses to the Board's call for Evidence dated 27 September 2013. It should be said that this quotation from the response cites an article appearing on the website efinancialnews.com dated (29 May 2013). It is worth noting that Blackrock has recently come out with lower pricing for some of its trackers and tracker fund prices. Prices generally have reduced since September 2013.

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