

Understanding Scale in Pension Funds

Overview

- Context for this paper
- The case for scale
- The Australian experience
- The Canadian experience (OMERS)
- Final thoughts

Context

- Pooling of the LGPS in England and Wales
- 11 funds in Scotland (ignoring sub-funds)
- AUM of circa £36bn at time of report
- FCA Asset Management Market Review
- CMA investigation into investment consultants

Cost transparency and value for money...



The case for scale

- Economies of scale
 - Cost reductions
 - Greater efficiencies
 - Buying power
- The governance dividend
- In-housing of asset management
- Reductions in external advisors



Challenges

- People
- Transition
- Governance, goals, and strategy
- Culture



The goal

- Minimize the current cost to the taxpayer
- Minimize the future cost to the taxpayer
- Secure member benefits
- Maintain quality pensions



The Canadian experience (OMERS)

- Global investment, with assets diversified by asset class, geography, economic sector
- Diversification of income streams in order to earn long-term returns
- Targeting of high-quality investments that are resilient in times of economic stress
- People and targets

The Canadian experience (OMERS)

- My first meeting with OMERS
- Borealis

“We invest in inflation-sensitive assets that are critical to the long-term success of a modern industrial economy. These large and complex assets often have significant governmental or regulatory barriers to entry, are regulated or supported by long term contracts, need strong investment and operational expertise and require excellent relationships with partners including co-investors and governments.”

The Australian experience (policy and pensions)

- Consolidation from the 80's through to today
- 5 of the 100 largest schemes and 16 out of the largest 300 schemes
- Globally ranked as one of the best pension systems (and it is DC)

The Australian experience (policy and pensions)

- Infrastructure Australia
- Stakeholders and experts
- Strategic plan for development of pipeline projects
- Accountability

Final thoughts

- Consolidation is a global trend and there are advantages
- It is hard to do
- The key to all of this is the people, goals, and strategy
- Securing member benefits and delivering value to the taxpayer