Meeting: **Local Pension Committee**

Date/Time: **Friday, 27 May 2016 at 9.30 am**

Location: **Guthlaxton Committee Room, County Hall, Glenfield.**

Contact: **Mr. M. Hand (Tel. 0116 305 6038)**

Email: **matthew.hand@leics.gov.uk**

AGENDA

Item		Report By	Marked
1.	Appointment of Chairman.		
2.	Minutes of the meeting held on 26 February 2016.		(Pages 5 - 10)
3.	Question Time.		
4.	Questions asked by members under Standing Order 7(3) and 7(5).		
5.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
6.	Declarations of interest in respect of items on the agenda.		
7.	Summary Valuation of Pension Fund Investments and Investment Performance of Individual Managers.	Director of Corporate Resources	(Pages 11 - 14)
8.	Investment Pooling within the Local Government Pension Scheme - Progress to Date.	Director of Corporate Resources	(Pages 15 - 22)
9.	Market Report.	Kames Capital	
10.	Any other items which the Chairman has decided to take as urgent.		

11. Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the following items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).

12.	Colliers Capital - Property Performance and Investment Strategy Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
13.	Kames Capital Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
14.	KKR - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
15.	Kempen Capital Management Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
16.	Kleinwort Benson Investors - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
17.	Ruffer Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
18.	Pictet Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
19.	Millennium Global - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
20.	IFM Investors - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
21.	Stafford Timberland - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
22.	Delaware Investments - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
23.	Aspect Capital - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager

24.	JP Morgan - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
25.	Aviva Investors - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
26.	Legal and General Investment Manager - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
27.	Ashmore - Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager

TO:

Leicestershire County Council

Mr. G. A. Hart CC
Mr. S. J. Hampson CC
Mr. Max Hunt CC
Mr. K. W. P. Lynch CC
Mr. P. C. Osborne CC

Leicester City Council

Cllr Deepak Bajaj and Cllr Lynn Moore

District Council Representatives

Cllr. Malise Graham MBE and Cllr. Chris Frost

University Representative

Mr. J. Shuter

Staff Representatives

Mr. R. Bone
Mr. N. Booth
Miss. J. Dean

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Agenda Item 2

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 26 February 2016.

PRESENT:

Leicestershire County Council

Mr. G. A. Hart CC (Chairman)
Mr. S. J. Hampson CC
Mr. Max Hunt CC
Mr. K. W. P. Lynch CC
Mr. P. C. Osborne CC

Leicester City Council

Cllr Deepak Bajaj
Cllr Lynn Moore

District Council Representative

Cllr. Malise Graham MBE

University Representative

Mr. J. Shuter

Staff Representatives

Mr. N. Booth
Miss. J. Dean

Independent Advisers and Managers

Mr. S. Jamieson	Kames Capital
Mr. A. Green	Hymans Robertson
Mr. B. McKay	Hymans Robertson
Ms. A. Cranston	Hymans Robertson
Mr. T. Hoare	Hymans Robertson

396. Minutes of the previous meeting.

The minutes of the meeting held on 22 January 2016 were taken as read, confirmed and signed.

397. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

398. Questions asked by members.

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

399. Urgent items.

There were no urgent items for consideration.

400. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting. No declarations were made.

401. Presentation by Fund Actuary.

The Committee received a presentation by the Fund's Actuary concerning the methods used to produce the Pension Fund's actuarial valuation which was required every three years. The presentation also detailed a suggested method of deriving some of the key assumptions in the 2016 valuation (minute 402 below refers). A copy of the presentation marked '6' is filed with these minutes.

RESOLVED:

That the presentation be noted.

402. Recommended Method of Deriving Key Actuarial Assumptions For 2016 Actuarial Valuation.

The Committee considered a report of the Director of Corporate Resources which recommended a method of deriving some of the key assumptions used as part of the actuarial valuation of the Leicestershire Pension Fund. A copy of the report marked '7' is filed with these minutes.

The Committee acknowledged that the actuarial valuation, which would set the contribution rates for the employer members of the Leicestershire Pension Fund for a three year period beginning 1 April 2017, would need to take into account a number of factors, some of which, such as inflation, salary growth and pension increases, would be based on calculated assumptions.

Once the Actuary had set individual valuation contribution rates for all employers within the Fund, an employer forum would be held to present the outcome of the valuation. In addition, employers would be consulted upon the contents of the Fund's Funding Strategy Statement which would need to be approved by the Local Pension Committee.

The Director added that agreement by the Committee on how the three key actuarial assumptions were derived would show a willingness to manage the financial position of the Pension Fund in an open manner which focused on the best long term interest of both employers and the Fund.

RESOLVED:

That the actuarial assumptions set out in paragraph 26 of the report be used in the 2016 actuarial valuation of the Fund for discount rate, salary growth and pension increase.

403. <u>Summary Valuation of Pension Fund Investments and Performance of Individual Managers.</u>

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present a summary valuation of the Fund's investments at 31 December 2015 together with figures showing the performance of individual managers. A copy of the report is filed with these minutes, marked '8'.

RESOLVED:

That the report be noted.

404. <u>Performance Assessment of Local Pension Committee and Investment Subcommittee.</u>

The Committee received a report by the Director of Corporate Resources, the purpose of which was to provide members with an opportunity to consider the Committee's performance over the past year. A copy of the report marked '9' is filed with these minutes.

It was noted that members of the Committee would continue to be invited to internal and external training sessions and receive training during formal meetings by way of presentations by investment advisors and/or officers.

RESOLVED:

That a report concerning member training, including a proposed future training schedule, be considered by the Committee at its next meeting.

405. <u>Funding update as at 31 December 2015.</u>

The Committee considered a report by Hymans Robertson which presented the funding projection at 31 December 2015. A copy of the report, marked '10', is filed with these minutes.

RESOLVED:

That the report be noted.

406. <u>Market Report.</u>

The Committee received a presentation by Kames Capital concerning global market conditions. A copy of the presentation, marked '11', is filed with these minutes.

RESOLVED:

That the presentation be noted.

407. <u>Exclusion of the Public.</u>

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Act.

408. Kames Capital Quarterly Report.

The Committee considered an exempt report by Kames Capital, a copy of which marked '13' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

409. KKR - Quarterly Report.

The Committee considered an exempt report by KKR, a copy of which marked '14' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

410. Kempen Capital Management Quarterly Report.

The Committee considered an exempt report by Kempen Capital Management, a copy of which marked '15' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

411. Kleinwort Benson Investors - Quarterly Report.

The Committee considered an exempt report by Kleinwort Benson Investors, a copy of which marked '16' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

412. Ruffer - Quarterly Report.

The Committee considered an exempt report by Ruffer, a copy of which marked '17' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

413. Pictet Quarterly Report.

The Committee considered an exempt report by Pictet, a copy of which marked '18' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

414. Aviva Investors - Quarterly Report.

The Committee considered an exempt report by Aviva Investors, a copy of which marked '19' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

415. Millennium Global - Quarterly Report.

The Committee considered an exempt report by Millennium Global, a copy of which marked '20' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

416. IFM Investors - Quarterly Report.

The Committee considered an exempt report by IFM Investors, a copy of which marked '21' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

417. Legal and General Investment Management - Quarterly Report.

The Committee considered an exempt report by Legal and General, a copy of which marked '22' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

418. Stafford Timberland - Quarterly Report

The Committee considered an exempt report by Stafford Timberland, a copy of the which marked '23' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

419. Delaware Investments - Quarterly Report.

The Committee considered an exempt report by Delaware Investments, a copy of which marked '24' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

420. Ashmore - Quarterly Report.

The Committee considered an exempt report by Ashmore, a copy of which marked '25' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

421. Aspect Capital - Quarterly Report.

The Committee considered an exempt report by Aspect Capital, a copy of which marked '26' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

422. JP Morgan - Quarterly Report.

The Committee considered an exempt report by JP Morgan, a copy of which marked '27' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

09.30 – 11.20am CHAIRMAN
26 February 2016

Leicestershire County Council

LOCAL PENSION COMMITTEE – 27TH MAY 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

SUMMARY VALUATION OF PENSION FUND INVESTMENTS AND INVESTMENT PERFORMANCE OF INDIVIDUAL MANAGERS

Purpose of Report

1. To present to the Committee a summary valuation of the Fund's investments at 31st March 2016 (attached as an appendix to the report). Due to staff unavailability it was not possible to include the investment performance of individual managers within the report before it was posted to members, but it is expected that an update on this will be provided at the meeting.

Summary Valuation

2. The total market value of investments at 31st March 2016 was £3,158.6m compared to £3,079.5m at 31st December 2015, an increase of £79.1m. In the three month period non-investment related net cash inflows amounting to £3.6m were received. After adjusting for non-investment related cash flows the Fund value increased by £75.5m, or 2.4%, due to changes in the value of investments.

3. The total returns of various indices since 31st December 2015 were as follows:-

	Local Currency %	Converted to Sterling %	Return with 50% hedge %
UK Gilts	+4.9	+4.9	+4.9
UK Index-Linked	+5.7	+5.7	+5.7
UK Equities	-0.4	-0.4	-0.4
North American Equities	+1.2	+4.2	+2.7
European Equities	-6.4	+0.6	-3.5
Japanese Equities	-12.8	-4.3	-8.5
Pacific (Ex Japan) Equities	-0.6	+5.6	+2.5

4. The current split of investments over sectors is as follows:-

	31st March 2016		31st December 2015
	£m	%	%
UK Equities	262.1	8.3	12.0
Overseas Equities	1,285.9	40.7	37.1
Targeted Return/Credit/Opportunity Pool	792.9	25.1	25.4
Private Equity	121.0	3.8	3.8
Property	293.4	9.3	9.4
Cash	8.4	0.3	1.4
Inflation-Linked Assets	387.0	12.2	11.1
Active and Passive Currency	7.9	0.3	(0.2)
	3,158.6	**100.0**	**100.0**

Equal Opportunities Implications

5. The matters referred to in the report have no identifiable equal opportunities implications.

Recommendation

6. The Local Pension Committee is asked to note the report.

Background Papers

Nil.

Officer to Contact

Colin Pratt, Investments Manager
Tel: (0116) 305 7656
Email: Colin.Pratt@leics.gov.uk

APPENDIX

PENSION FUND INVESTMENTS AS AT 31ST MARCH 2016

	Market Value £	Value %	Benchmark %	Variance %
Equities				
United Kingdom	262,119,053	8.30	8.10	0.20
Overseas:				
Global dividend-focused	248,698,695	7.87	8.00	-0.13
North America	462,863,106	14.65	14.20	0.45
Europe (Ex UK)	197,849,515	6.26	6.10	0.16
Japan	94,268,188	2.98	3.00	-0.02
Pacific (Ex Japan)	102,272,321	3.24	3.00	0.24
Emerging Markets	179,914,182	5.70	6.10	-0.40
Total	1,285,866,007	40.71	40.40	0.31
Private Equity	121,038,054	3.83	4.00	-0.17
Property				
Direct Holdings*	96,225,000	3.05	4.00	-0.95
Indirect Holdings	197,209,327	6.24	6.00	0.24
Total	293,434,327	9.29	10.00	-0.71
Alternative Investments				
Fauchier	687,967	0.02	0.00	0.02
Pictet	84,129,109	2.66	3.00	-0.34
Ruffer	215,251,927	6.81	7.00	-0.19
Credit Opportunities	158,184,755	5.01	5.00	0.01
Aspect	137,824,017	4.36	4.00	0.36
Emerging Market Debt	80,342,981	2.54	2.50	0.04
Opportunity pool	116,482,250	3.69	3.50	0.19
	792,903,006	25.10	25.00	0.10
Commodities	0	0.00	0.00	0.00
Inflation-Linked Assets				
Global Government Index-Linked Bonds	235,097,432	7.44	7.50	-0.06
Infrastructure	86,053,677	2.72	3.00	-0.28
Timberland	65,884,862	2.09	2.00	0.09
	387,035,971	12.25	12.50	-0.25
Cash on Deposit	8,289,392	0.26	0.00	0.26
Unrealised Profit On Currency				
Active	-376,473	-0.01	0.00	-0.01
Passive	8,244,460	0.26	0.00	0.26
Total	7,867,987	0.25	0.00	0.25
TOTAL	**3,158,553,797**	**100.00**	**100.00**	**0.00**

Direct Property Holdings*		
Retail	14,390,000	14.95
Retail Warehouses	19,695,000	20.47
Offices	24,500,000	25.46
Industrials	16,855,000	17.52
Leisure (Hotels/Health Club)	18,010,000	18.72
Farms	2,775,000	2.88
	96,225,000	100.00

Leicestershire County Council

LOCAL PENSION COMMITTEE – 27TH MAY 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INVESTMENT POOLING WITHIN THE LOCAL GOVERNMENT PENSION SCHEME – PROGRESS TO DATE

Purpose of the Report

1. To inform the Committee of the latest position in respect of the on-going activity in respect of the requirement for the Local Government Pension Scheme (LGPS) to be formed into a number of investment pools, with the first investment in the pools being made by 1st April 2018.

Background

2. The Summer Budget of July 2015 contained the following announcement:

"The government will work with the Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments."

3. In May 2014, and following analysis of the responses received from the Call for Evidence, a further round of consultation was launched. This consultation ruled out forced Fund mergers in the near term and focused on the possibility of asset pooling (possibly via the formation of a small number of Common Investment Vehicles) and the increased use of passive management, both of which were thought to offer potentially significant savings in investment management fees across the LGPS.

4. In late-November 2015 the Department of Communities and Local Government (DCLG) issued a document entitled 'Local Government Pension Scheme: Investment Reform Criteria and Guidance'. This document had been widely anticipated and did not contain any surprises to those Funds that had been close to the discussions that had been taking place between the interested parties.

5. The November document was the first time that the criteria against which the various options would be judged had been formally laid out. The four key criteria were:

A. Asset pools that achieve the benefits of scale – minimum size £25bn;
B. Strong governance and decision making – the governance structure should provide strong governance at both a local Fund level, and also at a pool level;
C. Reduced costs and excellent value for money;
D. An improved capacity to invest in infrastructure

6. The criteria also stated that the pools should take the form of ‘up to six British Wealth Funds’. It has subsequently become clear that the eight Welsh LGPS Funds (with combined assets of c.£13bn) are likely to be granted exemption from the ‘scale’ element due to their ‘unique culture, politics and regulations’. It looks highly likely that there will be an additional six pools covering England.

Activity since previous meeting of Local Pension Committee

7. At its meeting of 22nd January 2016 the Local Pension Committee approved a recommendation that the Leicestershire Pension Fund give a firm commitment to work with other funds that had collectively become known as ‘LGPS Central’. The other Funds were Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire and the combined assets of the pool at 31st March 2015 were c.£35bn.

8. The eight Funds have continued to co-operate well and an initial response to the Government’s proposals was sent by both the Leicestershire Fund and LGPS Central before the deadline of 19th February 2016. A letter from the Minister for Local Government was sent to all Funds within LGPS Central in late March 2016, a copy of which is attached as an appendix. Leicestershire did not actually receive a letter, and no representative of Leicestershire was included in the circulation list, but the Minister has assured us that this was an administrative oversight and the letter should be taken to cover all eight members of LGPS Central including Leicestershire. This response is broadly supportive and includes paragraphs that were common to most of the letters that went out to the other prospective pools.

9. LGPS Central, alongside some of the other prospective pools, had already commissioned legal opinion on the best legal structure for an investment pool prior to the response of the Minister. This opinion made it clear that a formal Common Investment Vehicle (CIV) was the most appropriate structure both from a legal perspective and also to meet the wishes of government.

10. The alternative structure, generally referred to as a Common Asset Pool (CAP), has no formal legal standing and is effectively an informal agreement to manage assets on a joint basis. Whilst this arrangement avoids the cost and difficulties of regulation by the Financial Conduct Authority (FCA), there is a very real possibility that its activities may inadvertently stray into areas in which regulation is a requirement. This would lead to fines and potential imprisonment and the risks surrounded a CAP are significant, so can be discounted as inappropriate.

11. A number of the prospective pools have explored, and continue to explore, ways in which they can avoid the need for Regulation. The government is firmly against unregulated pools, as can be seen in the third paragraph of the response from the Minister in the appendix. As LGPS Central will have an internal management company as part of the options available for Funds, there is an inherent need for Financial Conduct Authority regulation for this company and the ‘step up’ to FCA

registration for the whole pool is not as challenging as it will be for the pools without internal management capability. Whilst going through this regulation process, and the need to prove that the pool has sufficient resource to cover all areas that are required to meet the stringent requirements of the FCA, will be time consuming and incur costs that the Funds do not currently have. By properly regulating pools, it will prove that robust practises are in place – for a pool that will ultimately be responsible for managing £35bn of assets (and probably more, on the basis of future investment growth), the government's wish to see regulation does not seem unreasonable.

12. As a separate piece of work to the legal opinion mentioned above, LGPS Central has also commissioned assistance in considering the options for the structuring and ownership of the pool. There is a requirement for the pool to have an 'operator' to run the pool and there are three options in this respect:

    (i) Buy an existing operator that already has the necessary infrastructure and expertise in place;
    (ii) To 'rent' the services from an existing operator;
    (iii) To 'build' a new operator.

13. Buying an existing operator is not really practical given how few there are in existence and given the scale of LGPS Central, which would dwarf the assets managed by most existing operators.

14. Renting is an option but the issue of scale is still a concern, as is the loss of control in certain key decisions – for example the choice of underlying investment managers. Renting is likely to reduce the up-front costs that need to be incurred in the 'build' option – for example, FCA authorisation will already be in place – but will be more expensive on an on-going basis. Although the Funds will have certain powers as investors, the ability to influence the operator is necessarily low as financial regulation requires the operator to retain independence of action in many areas – investors cannot run an operator by proxy.

15. The build option is considered to be the most sensible, given the circumstances of LGPS Central. This will give the Funds maximum influence in terms of the investment options offered within the pool, and control over the appointment of key individuals within the operator. The operator will be owned by the Funds and the Funds will have shareholder rights, as well as investor rights. Building is a more costly and more onerous option in the short term, but in the long-term allows maximum flexibility and will be more cost effective. The operator will, however, be run autonomously but with oversight governance from the Funds.

16. The next key date for LGPS Central is 15th July 2016, when a final submission is required. It has been agreed that this submission will take the form of a template answering set questions, with the ability to include further detail via the use of appendices. The template is currently being agreed by all parties but the initial draft suggests that it will be reasonable in its requests for information, and recognise that there has been a limited amount of time for pools to agree detailed plans in certain areas (the investment options that will be available via the pool, for example). One area within the template is an expectation that all funds within a pool will have agreed, via due political process at the appropriate committee, certain key features

of their proposal. One of the key areas will be the preferred legal structure and the governance arrangements that are expected to be in place.

17. The requirement for formal agreement of some matters by the Local Pension Committee means that it will be necessary to hold a special meeting of this committee before the end of June – whilst officers of all eight Funds continue to meet regularly (on at least a fortnightly basis), there is a lot of detail that still needs to be worked through before a form of wording for committee approval at each Fund can be agreed. Officers of the Funds continue to work together extremely well and their views are very closely aligned, but there are still considerable amounts of work to be done.

18. LGPS Central has already carried out important work in respect of the current investment strategies of each Fund, and the total investment costs incurred by these strategies. All Funds are aware that the Pool cannot simply replicate what we currently have if meaningful savings (and savings that will be greater than the additional costs incurred in operating the Pool) are to be achieved. All Funds will have to compromise and be willing to look at alternative ways of meeting their required investment returns, but the signs are that this will happen. Third parties that have had dealings with some of the other pools suggest that LGPS Central has greater unity than some of the other prospective Pools, which may simply be a function of having fewer Funds than some, but there will undoubtedly be sticking points that arise over the coming months and years. There is a strong expectation that any differences can be worked through.

19. Then government, via the Department for Communities and Local Government (DCLG) and Her Majesty's Treasury (HMT), continue to engage with Pools in a meaningful way and to offer useful feedback into their thinking and requirements. Meeting between LGPS Central and these bodies have been very positive and there is a strong expectation that LGPS Central will be one of the Pools that is accepted following the July submission, and that there will be relatively few changes to this submission required by Central Government.

Summary

20. LGPS Central continues to progress steadily and in an efficient manner, and meeting the requirement of a detailed submission by the Pool by 15th July 2016 is well in hand. Officers of all eight funds are strongly supportive of the fact that the Pool should take the form of an entity (or entities) that are authorised by an appropriate regulator, and this is in line with the government's clearly articulated wishes.

21. The LGPS Central Pool has to be run by an 'operator' and there are clear long-term advantages, both financial and from an operation and governance perspective, for this operator to be 'built' and owned by the eight Pension Funds. Whilst this is a very meaningful commitment from the Funds, the scale of the assets is such that it is possibly the only sensible option.

Recommendations

22. That the Committee notes the report.

Equal Opportunities Implications

None specific

Background Papers

Local Pension Committee – 22 January 2016 – Local Government Pension Scheme Investment Reform

http://politics/Published/C00000740/M00004490/AI00046596/$InvestmentReform.docA.ps.pdf

Appendix

Letter from the Minister for Local Government

Officers to Contact

Colin Pratt – telephone (0116) 305 7656
Chris Tambini – telephone (0116) 305 6199

Appendix

Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

Department for Communities and Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

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E-Mail: marcus.jones@communities.gsi.gov.uk

www.gov.uk/dclg

Cllr Reg Adair
Cllr Stephen Sweeney
Cllr Bob Banks
Cllr Jasbir Jaspal
Cllr Richard Worrall
Cllr Malcolm Pate
Cllr Lesley Smetham
Cllr Steve Marshall-Clarke

2 4 MAR 2016

Dear Councillors,

LGPS CENTRAL INVESTMENT POOLING PROPOSAL

I would like to thank you and all the authorities involved in the proposed LGPS Central pool for submitting your initial proposal by 19 February. I was pleased to see that all 90 authorities made a commitment to pooling, with the overwhelming majority already involved in developing a pool. The move towards collective investment represents a significant opportunity for administering authorities to deliver substantial savings and efficiencies, and your contribution is much appreciated.

I welcome the initial LGPS Central proposal and encourage you to continue with your work to develop a detailed submission that fully addresses the criteria by 15 July. Your initial grouping clearly meets the scale criterion and the agreement to a Statement of Commitment will provide a strong foundation upon which a more detailed proposal can be built. I also welcome your commitment to transparent reporting of costs. However, as you know, there remains a considerable amount of work to do before July, and I am glad to note that you are meeting officials in April.

The key challenge for the LGPS Central pool, as for most pools, is the development of clear and effective governance which provides the assurance authorities, beneficiaries, and co-investors require. In my view the structure, standards and systems required for an entity regulated by the Financial Conduct Authority provide substantial assurance, but I know that you are exploring a range of possibilities. As a minimum, I expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff. There should also be a clear distinction between the roles of those involved in the governance of the pool, and its operations.

In your July submission I will want to see more detail against the infrastructure criteria, including setting out your constituent fund's ambition for infrastructure investment where the right opportunities exist. You and other pools committed to exploring a national vehicle to access infrastructure investment at a larger scale and at lower cost. We will therefore work with administering authorities to establish a new Local Government Pension Scheme (LGPS) infrastructure investment platform that meets the specific needs of LGPS investors.

I will also expect the final proposal to address the reporting requirements in the criteria and guidance in detail. Reporting will need to cover progress in establishing the pool and moving assets into it, implementation costs, fees and other costs incurred, including hidden costs, estimated savings, and net performance in each asset class.

I will also take this opportunity to respond to two questions raised in many pooling submissions:

- Some authorities have indicated that they would prefer to use more than one pool, often to ensure that their investment strategy can be fully implemented. I do not consider that this approach should be necessary as the governance structure should enable authorities to hold the pool to account and ensure that their investment strategy is implemented effectively. However, one pool may of course procure services from another, especially if a particular asset class is not yet available. The use of multiple pools should certainly not be considered as a means to access a preferred manager or very specific asset class not available through your pool.

- My expectation remains that all investments should be made through the pool. However, I recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or some products tailored to specific liabilities. The rationale for retaining any existing investments outside of the pool will need to be set out in the final proposal, making clear how this offers value for money. Any exemptions should be minimal and kept under review. I also recognise that a similar approach will need to be taken for illiquid assets with high penalty costs for early exit of a contract. Such investments should not be wound up early as a result of pooling but instead transferred across when practicable, taking into account value for money.

I strongly encourage you to continue dialogue with officials as you develop your thinking over the coming months. For the final assessment, the panel will include members with specific expertise in investment management, and you may be asked to present at a meeting of the assessment panel well ahead of your July submission. I look forward to receiving your detailed proposals.

I am copying this letter to the chairs of Pension Committees in all the participating authorities.

Yours Sincerely,

Marcus Jones

MARCUS JONES MP

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Leicestershire County Council Pension Fund Q1 2016 - Market Report

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Contents

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Historic Returns for World Markets

Index	Q1 (%)	1 Year (%)	3 Years (%)
Citi WGBI Non-GBP TR	10.12	9.83	2.18
FTSE 100 TR	0.07	-5.26	2.42
FTSE 350 TR	-0.38	-4.12	3.51
FTSE A (Index Linked) British Govt All Stocks TR	5.67	1.74	5.08
FTSE A British Govt All Stocks TR	4.92	3.25	4.64
FTSE A British Govt Over 15 Years TR	8.21	4.03	8.55
FTSE All-Share TR	-0.41	-3.92	3.67
FTSE Japan TR	-4.26	-3.25	6.58
FTSE Small Cap TR	-1.40	1.62	8.85
FTSE World Europe ex UK TR GBP	0.58	-4.16	6.49
FTSE World ex UK TR GBP	3.21	0.39	9.03
IPD UK All Property Monthly TR	1.08	11.69	14.61
LIBID GBP 7 Day	0.12	0.49	0.48
Markit iBoxx Sterling Non Gilts Overall TR	3.16	0.45	4.87
MSCI EM (Emerging Markets) TR GBP	8.45	-8.80	-2.38
MSCI Pacific ex Japan TR GBP	4.43	-6.56	-1.02
S&P 500 TR	3.93	5.13	13.87
Commodities	0.34	-19.66	-16.92
£ Trade Weighted Index	-5.96	-5.51	2.01

Currency	Q1 (%)	1 Year (%)	3 Years (%)
Euro	7.58	9.59	-2.12
Japanese Yen	9.75	10.20	-4.03
US Dollar	2.55	3.28	1.85

Index returns are reported in GBP to indicate sterling.
Source: Kames Capital as at 31 March 2016. All returns over one year are annualised.

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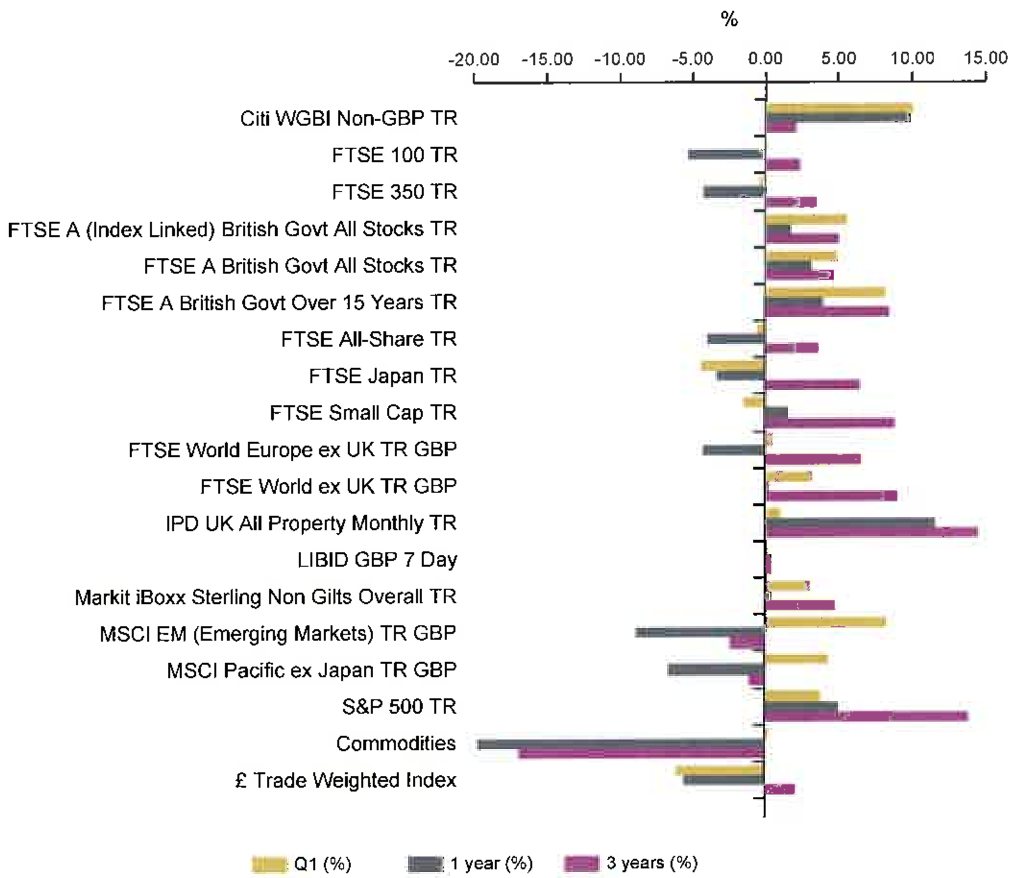
Historic Returns by Market Index

3 months, 1 year and 3 years (annualised)



Index returns are reported in GBP to indicate sterling.
Source: Kames Capital as at 31 March 2016. All returns over one year are annualised.

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Market Review

UK Equities

UK equities slipped over the period, with the FTSE All-Share index returning -0.41%.

While many other developed markets advanced in the first quarter, the UK was held back over concerns about the nation leaving the European Union (EU), one of its key trading partners. In February, Prime Minister David Cameron announced that a referendum on whether or not to remain in the EU would be held on 23 June 2016. This depressed both equities and sterling, and prompted a warning that this weakness was likely to persist in advance of the vote. Further negative news came in the form of an admission by the Bank of England that the fiscal outlook for the UK had deteriorated since the previous quarter.

For all that, economic indicators were broadly positive: inflation levels fell short of official estimates, although they stayed at an annualised 0.3% to February. Unemployment in the UK held steady at 5.1%, while retail sales rose by 3.8% year on year, ahead of analysts' expectations. Interest rate rises, which were originally thought to follow close on the heels of US increases, are now expected to be delayed until possibly 2017.

US Equities

In the US, the S&P 500 index rose by 3.93% in sterling terms and 1.35% in US dollar terms.

US equities had a generally favourable quarter, but like all other developed markets, were unable to completely escape the effects of an oil price that hovered below $30 per barrel in January, making the first month of the year particularly challenging. The holiday retail season also proved disappointing; an unusually warm winter compared with recent years dampened consumers' drive to purchase cold-weather apparel and retail sales actually contracted in December.

This poorer data encouraged the Fed to proceed with caution. Chair Janet Yellen took a dovish approach to interest rates, indicating that the Fed's policymakers would raise rates according to the pace of the US economic recovery. Estimates regarding the number of 2016 interest rate rises were reduced from four to two, and authorities also lowered their expectations for inflation (from 2.0% by the end of the 2016 to 1.2%).

These communications boosted US equities, as did rising oil prices and encouraging data on the unemployment rate, which stood at 4.9% in January and February. GDP growth for the fourth quarter of 2015 was revised up to 1.4%, helping to stave off fears that the economy could fall into recession.

At a sector level, telecommunications rose strongly. Verizon Communications and AT&T had a particularly lucrative quarter. Utilities also proved robust, while banks struggled, caught up in the quarter's widespread fears about the global financial sector.

European Equities

The FTSE Europe ex-UK returned 0.58% in sterling terms.

European equity markets had a difficult start to the quarter: stocks were shaken by news of Britain's upcoming EU referendum, and they suffered further in the bank sector sell-off in February. Frightened by the global outlook for persistently low inflation levels and depressed commodity prices, investors sold out of financial stocks in droves. In Italy, authorities intervened to support the country's domestic banks, fearing a collapse in the financial sector.

However, things began to turn around later in the period as the oil price rallied and the ECB introduced further easing measures that included pushing the benchmark interest rate to zero. The bank did assert, however, that it had no intention of driving the interest rate into negative territory in the future. The bank's monetary stimulus was also adjusted, increasing the value of monthly assets purchased from €60 billion to €80 billion, and euro-denominated corporate bonds became eligible for inclusion. This led European equity markets to rise in March. At a sector level, stocks that were reliant on commodity prices generally did well, with significant gains for industrials and oil & gas. Financials, namely banks, were the biggest laggards, although healthcare, particularly pharmaceuticals and biotechnology, also had a difficult quarter.

On a macro level, unemployment in the eurozone met expectations by falling to 10.3% in February. Inflation, however, returned to negative levels.

Japanese Equities

The FTSE Japan returned -4.26% in sterling terms over the quarter, with losses even more pronounced in local currency terms at -12.77%. Investors fretted over disappointing economic releases and broader fears that the government's 'Abenomics' policies were not producing the desired results.

The Bank of Japan (BoJ) swiftly took action, surprising markets by pushing the benchmark interest rate to negative levels in late January. The BoJ considered the move a way to demonstrate to the public its commitment to raising inflation rates, which remain worryingly low. The central bank also reiterated in an accompanying statement that it would consider further easing measures if they were deemed to be necessary. Given that retail sales fell heavily in the following month (from -0.4% in January to -2.3% in February), there was speculation that any future stimulus measures could be aimed specifically at consumers.

As for economic indicators, the inflation rate did creep up during the period, rising to 0.3% in the year to February. Industrial production data was also bleak, dropping from a 3.7% month-on-month rise in January to a 6.2% fall in February. Manufacturing production also followed a downward trajectory.

As with most regions, the Japanese financial sector was the hardest hit in the first quarter. However, in a divergence from its developed-market counterparts, commodity-facing sectors continued to fare poorly, with oil & gas, basic materials, industrials and the automobiles sectors all falling.

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Asia Pacific ex-Japan Equities

Asian markets advanced during the quarter, with the MSCI AC Asia Pacific ex-Japan index returning 4.43% in sterling terms.

Markets around the world continued to stay focused on China, and in an effort to alleviate increasing global fears, the People's Bank of China (PBoC) allowed the renminbi to depreciate. However, this had a negative effect and investors grew more bearish, fearing falls in other currencies. In January, authorities opted to cancel use of the new 'circuit-breaker' system (designed to halt trading when stocks fall too low) just days after its introduction. After it was triggered twice, officials began to feel that the system could be serving to heighten investor anxiety rather than soothe it. As the quarter wore on, the PBoC continued to remain supportive. In February, the central bank enacted further economic stimulus, this time by decreasing the domestic banks' reserve-requirement ratio (RRR), which had already been cut multiple times over the course of a year. However, despite the stimuli, China's 2016 growth outlook was lowered to a range of 6.5%-7.0%.

Other central banks in the Asia-Pacific region followed suit in increasing supportive measures: Bank Indonesia cut rates in both February and March, and the Reserve Bank of New Zealand cut interest rates for the fifth time in less than 12 months. The latter cited weaker demand from China – a major trade partner of New Zealand – as a reason for its accommodative measures. The move proved supportive to domestic stocks.

Property

The IPD monthly benchmark showed a 1.1% total return over the first quarter. This was driven by both income return and positive capital growth.

During the quarter SDLT (stamp duty land tax) was increased in the budget thereby impacting property pricing, with capital values being adjusted downwards across the market to reflect the increased purchase costs.

The UK commercial property market has shown a slow down over the first quarter of 2016, with less investment activity from UK institutions caused by uncertainty in the market over the EU Referendum. In some sectors this has led to a cooling in pricing as investors are holding off on decisions and the market has lost some of the momentum of 2015.

Despite this there is still competition for certain assets, although investment volumes are down.

There were certain properties on the market that did not sell at their higher quoted prices and as a result have been re-priced, presenting a buying opportunity.

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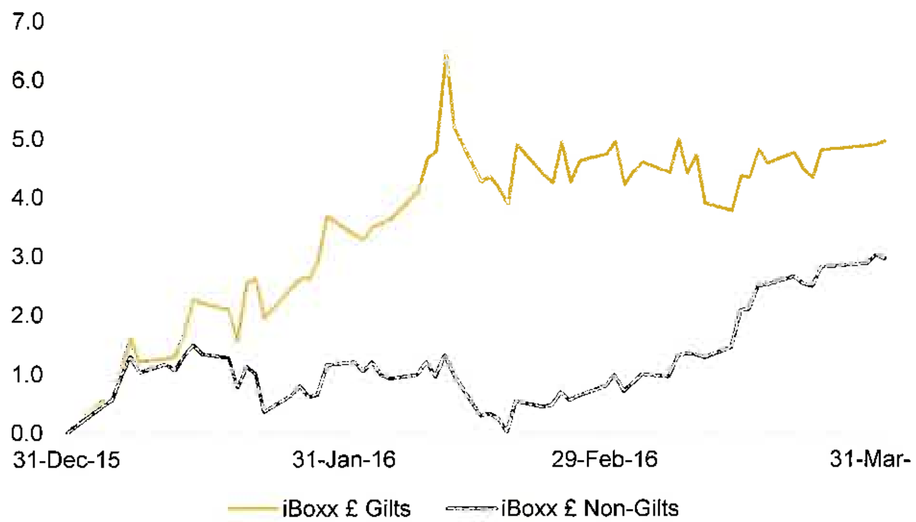
Fixed Income

Both government and corporate bond markets enjoyed a positive start to the year, although the healthy returns were accompanied by a significant amount of volatility. Once again, central bank activity played a key role with the European Central Bank (ECB) announcing further easing measures in order to stimulate the economy.

This description of the market environment may by now sound familiar, given it is almost word-for-word how we summarised the first quarter of 2015. These similarities remind us that we live in a world where markets continue to be manipulated by central bank intervention. At the same time, the macroeconomic themes that have dominated in recent years remain in place. In the first three months of 2016 swings in commodity prices, concerns over a lack of growth, particularly in emerging markets, and signs of recovery in the US were once again all to the fore.

A positive quarter for bond markets



Source: Markit

Government bonds – safe haven rally

The year began with attention firmly on China and commodity price weakness. These themes drove the market for the first six weeks of the quarter to such an extent that by mid-February core government bonds had fallen in yield by around 0.5% at the 10-year maturity point. The rally was given further impetus by the Bank of Japan's decision late in January to cut its official interest rate to -0.10%, the first time the Bank had ever moved into negative territory.

From the middle of the period, however, markets turned sharply with government bonds losing some ground, at least initially. The drivers of the u-turn were threefold. First, the European Central Bank announced in February its intention to expand its quantitative easing measures, which it subsequently implemented at its March meeting. Second, the US Federal Reserve suggested it would reduce the rate at which it would increase rates during 2016. Third, commodity prices improved after core OPEC members committed to an April meeting and a review of production quotas. At the same time, continued demand for metals helped most hard commodity prices move upward.

Despite the u-turn in markets government bonds still posted a healthy return for the quarter with the iBoxx £ gilts index rising by an impressive 5.2%. Index-linked markets also rallied, particularly in the US, as inflation expectations increased in line with the more dovish comments from the US Federal Reserve and the additional policy measures announced by the ECB. The FTSE UK Index Linked All Stock index rose 5.67% over the quarter.

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Table 1: 10-year yield movements in core and European periphery benchmark bonds

	Core government bonds				Peripheral Europe				
Country	UK	US	Germany	Japan	Spain	Italy	Greece	Ireland	Portugal
Yield at end Dec 2015	1.96	2.27	0.63	0.27	1.77	1.59	8.07	1.15	2.50
Yield at end Mar 2016	1.42	1.77	0.15	-0.03	1.43	1.22	8.48	0.73	2.93
Change in yield	-0.54	-0.50	-0.48	-0.30	-0.34	-0.37	+0.41	-0.42	+0.43

Source: Bloomberg.

Investment grade bonds

Corporate bonds also performed well over the quarter; in total return terms the iBoxx £ Non-Gilts index returned 3.2%.

The year opened with risk assets under significant pressure, taking investment grade bonds in particular to levels that factored in a moderate global recession. With government bonds rallying strongly, the difference between government bond yields and corporate bonds yields widened materially with bonds issued by financial companies at the forefront of the punishment.

Towards the end of February there were some signs of a tentative rally in the corporate bond sector and this became more visible as we moved into March. The catalysts for the improving picture were largely as mentioned in the government bond section above. The further easing measures announced by the ECB were particularly impactful, given the Bank extended its asset purchases programme to include investment grade corporate bonds. This announcement alone led to a significant re-pricing of corporate bond risk as investors reacted positively to the news. By the end of the quarter most sectors had rallied strongly although financial bonds, particularly in the banks and insurance sectors, were not as strong as other areas.

High yield bonds

The high yield bond sector enjoyed a strong start to the year with the Barclays Global HY index rising 6.8% in sterling terms (4.1% in US dollars). The sector followed a similar path to its investment grade cousins, with high yield bonds under pressure for the first half of the quarter before rebounding strongly from mid-February onwards. This resulted in the US high yield sector outperforming its European counterpart for much of the period. Financial bonds, particularly in Europe, lagged the general rally, with the additional tier-1 (AT1) sector coming under pressure given its higher-risk characteristics.

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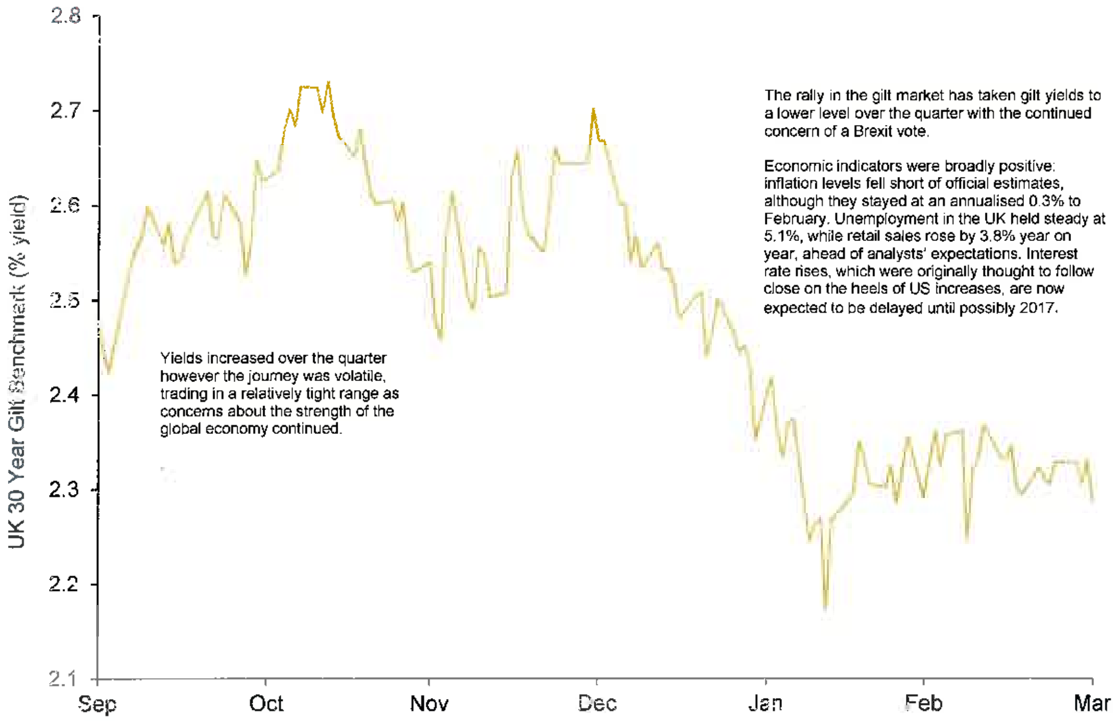
Key Market Movements

The following charts provide a pictorial summary of key market movements during the six-month period to end of March 2016.

Global Equities (FTSE World – Price Index)

Source: Datastream

Long Gilts (War Loans 3.5% Perpetual)



Source: Datastream

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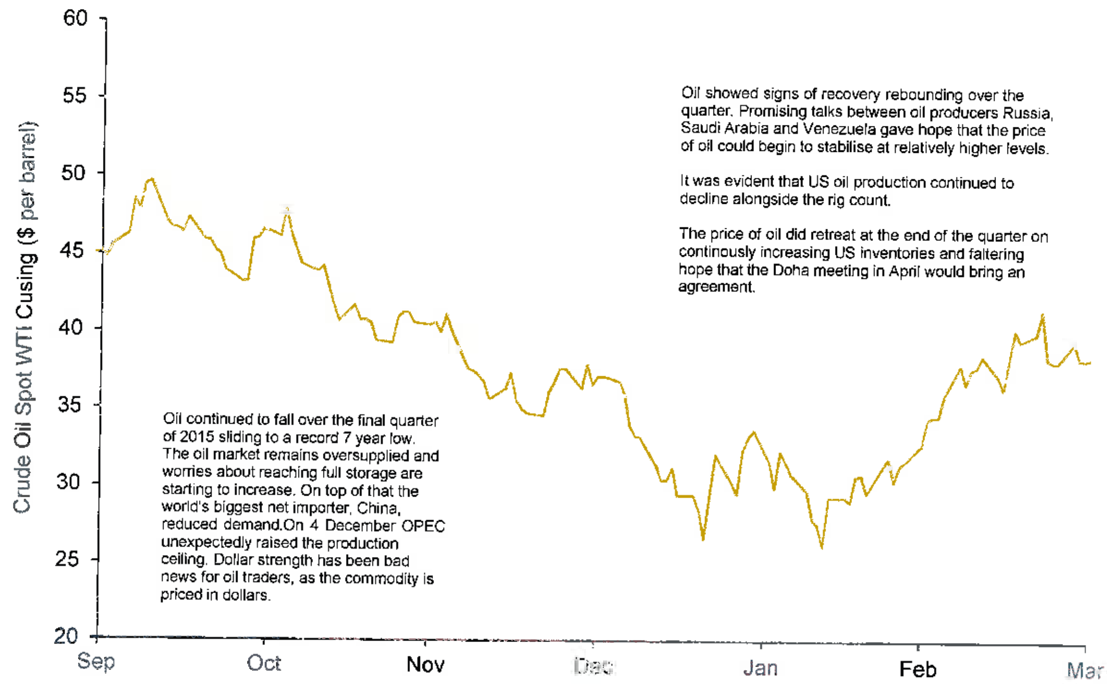
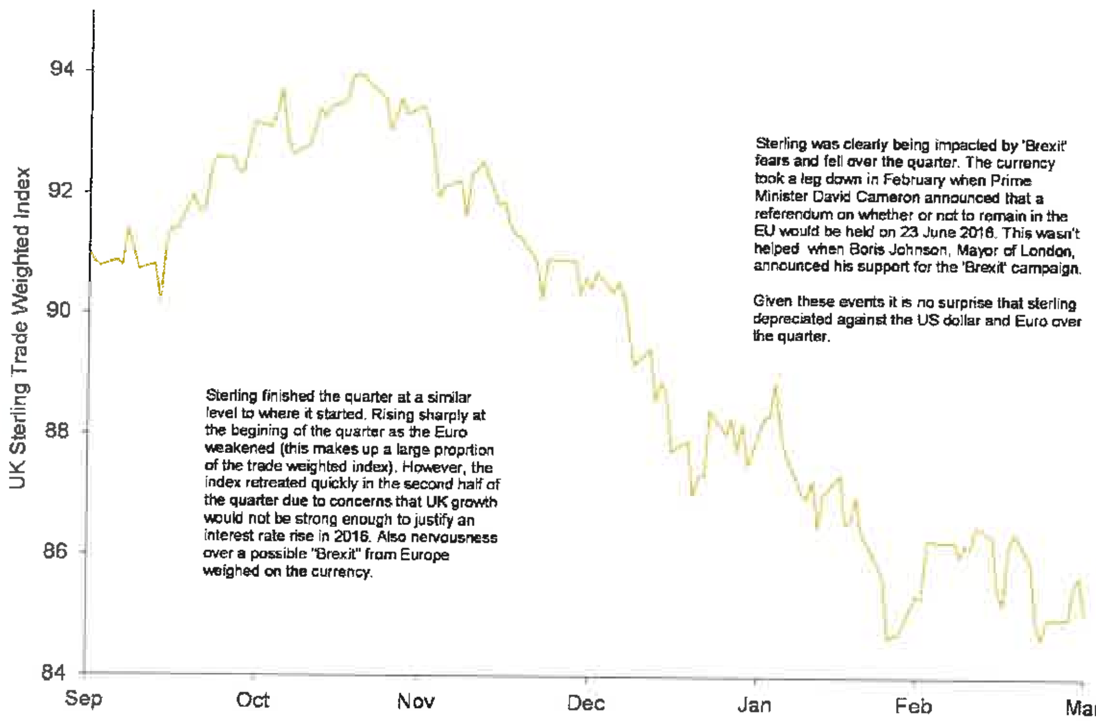
Oil Price (Crude Oil Spot WTI Cushing ($per barrel))



Source: Datastream

UK Sterling (UK Sterling Trade Weighted Index)



Source: Datastream

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Quarterly Thought Piece

Perspectives: Helicopter Money

"Let us suppose now that one day a helicopter flies over this community and drops an additional $1,000 in bills from the sky, which is, of course, hastily collected by members of the community. Let us suppose further that everyone is convinced that this is a unique event which will never be repeated."

Milton Friedman
The Optimum Quantity of Money, 1969

Milton Friedman's concept of 'helicopter money' has inspired many economists and policymakers. In this article I will highlight some of the more recent interpretations, consider the conditions for its effectiveness and explain why it has again become a hot topic.

When Friedman introduced his idea, he intended to optimise monetary policy and support economic growth by raising demand. He actually had two proposals, one deflationary (known as the Friedman Rule) and one inflationary (helicopter money). In this article, I will focus on the latter.

Types of helicopter money

Three main variations of helicopter money have been discussed in recent times:

1. **The Bernanke helicopter**: Discussed by former chairman of the US Federal Reserve, Ben Bernanke, it involves transfers to households and businesses through a tax cut or rebate, coupled with incremental purchases of government debt. It is effectively a tax cut financed by money creation. He recently re-visited this topic in his blog and concluded that under "certain extreme circumstances" it may be the "best available alternative".

2. **The Woodford helicopter**: Discussed by leading monetary economist Michael Woodford, it centres on a version of flexible inflation-targeting, in which the central bank commits future monetary policy to a permanently higher nominal target (such as the path of nominal GDP). This involves various tools within that framework, including permanent increases in the monetary base using fiscal transfers.

3. **The Turner helicopter**: Discussed by former FCA chairman Lord Adair Turner, 'Overt Monetary Financing' means the Treasury issues interest-bearing debt, which the central bank purchases, holds and perpetually rolls-over (buying new government debt whenever the government repays old debt). The central bank also returns the interest income it receives as profit to the Treasury. Importantly, the central bank must credibly communicate and commit to this perpetual rollover in advance.

A key shared element among the various types of helicopter is a consolidated view of the balance sheets of both the central bank and the Treasury. Clearly, this arrangement can jeopardise the independence of a central bank. In terms of destinations for the money, helicopter drops can involve financing one or more of:

- Tax cuts or rebates
- Increased public expenditure e.g. on infrastructure
- Public debt write-offs
- Bank recapitalisations.

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Lessons from history

There have been – often notorious – examples of helicopter money, such as in the Weimar republic, Hungary and Zimbabwe. In these cases, these experiments led to hyperinflation. But even the Bank of England has a rich history of directly funding the government. For example, until 2000, it regularly used money creation to finance part of the government's spending by way of an overdraft facility, called 'The Ways and Means Advance'.

There are a couple of more recent examples that are closer in spirit to helicopter drops, particularly of the 'Bernanke' type, albeit without the explicit direct funding via central banks.

The first is from the Netherlands where, in January 1998, the then finance minister Gerrit Zalm introduced his 'Zalmsnip'. This consisted of a tax cut of 100 guilders (today's equivalent: €45.38) per household per year to compensate for a general increase in local (municipal) taxes. Due to a budget surplus, the government had some fiscal leeway and increased its contribution to the municipalities, which were responsible for the implementation of this measure. Most municipalities chose to deduct the Zalmsnip from the property tax assessment, while others implemented it through a reduction in charges for waste collection or sewerage. As this measure was more a compensation for higher charges than a real boost to income its effect remains unclear. It was abolished in early 2005.

In the US, both Presidents Clinton (2001) and Bush (2008) issued tax rebate cheques, amounting to a maximum of $600 and $1,200 respectively. In the first instance, households reportedly spent 50-70% of their 'Clinton cash', while this decreased to one-third of the 'Bush cash', with the remainder instead saved or used to reduce debt. This suggests that the timing of the drop relative to economic developments matters in terms of how the money is spent.

Again, although these recent examples are not pure helicopter drops, they provide an operational template whereby these measures are extended via direct funding via the respective central banks.

Conditions for success

In terms of its impact, Buiter (2014) argued that there are three conditions that must be satisfied for helicopter money to be effective (i.e. to always boost aggregate demand):

1. There must be benefits from holding fiat money (a currency not backed by any physical commodity, such as gold) other than its financial rate of return. For example, as a precautionary move, people keep some money in cash to pay bills, even though it earns a zero rate of return.

2. Fiat money is not redeemable, and is perceived as an asset by the holder but not as a liability by the issuer. In other words, a transfer of this money is not 'balance sheet neutral' for the economy as a whole, but rather permanently increases the money base.

3. The price of money is positive. This means that in order to buy something (e.g. a good) you need to hand over a positive amount of units of money. Stated differently, if the price of money were zero then for any (even very large) amounts of money one could buy nothing. Importantly, the price of money is not necessarily equivalent to the interest rate.

The question of whether the economy would remain stuck at the zero-lower bound without helicopter money becomes a moot point. In the view of its advocates, helicopter money, enacted in a collaborative way by a country's central bank and treasury, could raise aggregate demand and thus lift the economy from levels associated with the zero-lower-bound. That's all that counts.

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Will the helicopters take-off?

The fact that flying them is actually being discussed suggests that this is no longer taboo. Friedman's starting point for considering a helicopter drop is the situation where a central bank has already lowered its rate to the zero-lower bound and actually needs higher inflation. Although it varies across regions, deflationary forces remain prevalent within the global economy, while many interest rates are close to or even below zero. So the conditions for considering helicopter money are roughly present. Specifically, the combination of deflation and zero interest rates points to the risk of a liquidity trap, making monetary policy ineffective and thus in need of fiscal support.

However, the debt overhang means that government finances are still dominated by budget cuts and austerity. As Stanley Fisher recently remarked:

"Certainly, it is easier for a central bank to change its policies than for a Treasury or Finance Ministry to do so, but it remains a pity that the fiscal lever seems to have been disabled."

What could change this, of course, is further serious deterioration in the economic outlook and/or another financial crisis.

A note of caution

So why are critics - including myself - afraid of helicopters? The answer lies in Friedman's second sentence in our introductory quote.

> *"Let us suppose further that everyone is convinced that this is a unique event which will never be repeated."*

The danger is that governments become used to money drops. Critics also point out that certain policies, such as negative interest rates, erode depositors' trust in banks, which is the broader issue in our fiat currency system.

Anecdotally, for example, the sale of safes have increased in Germany and Japan since negative interest rates were introduced. This goes beyond private individuals - the German insurer Munich Re announced that it has stored a seven-figure sum of cash in its vaults to test how it could avoid paying negative rates.

Moreover, critics point out that monetary policies have actually contributed to the predicament the global economy finds itself in, and that helicopter money is only the most extreme of a succession of bad medicines.

On a number of occasions I have previously highlighted that these policies, and the thinking behind them, are based on a flawed mechanical perspective on the economy and markets. On that note, although Friedman initially states that money is "an extraordinarily efficient machine", his later comments suggest that fiat money doesn't operate as such. Specifically, because:

"It is so pervasive, when it gets out of order, it throws a monkey wrench into the operation of all the other machines."

Unfortunately, as expressed by Bernanke, for example, circumstances may dictate that policymakers start their engines and prepare for take-off.

Scott Jamieson

Head of Multi-Asset Investing

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