

## **Government Consultation LGPS: Next Steps on Investments Points of principle as discussed at Brunel Client Group**

**Q1. Do you consider there are alternative approaches, opportunities or barriers within LGPS administering authorities or investment pool structure that should be considered to support the delivery of excellent value for money and net outstanding net performance?**

This question generated the most discussion, and in general, Funds felt that the current arrangements were working well for the Brunel Pension Partnership and further changes were not necessary for the delivery of excellent value for money and net outstanding investment performance. Furthermore, it was agreed that further changes, and in particular the proposal to increase scale by reducing the number of pools would have a negative impact both on short term performance and on future governance arrangements. Funds were particularly concerned on the further transitional costs involved in a merger of pools, which in some cases would be incurred before Funds had recovered the transitional costs of the initial transition to Brunel.

There was though an acceptance that the issue of scale is likely to be taken forward either by this Government or the next. Several key issues were raised in the subsequent discussion including:

- the lack of evidence for £50bn and concern that we need to transition again in future to £100bn or another figure incurring further costs and disruption,
- limited further savings on listed markets with capacity constrained managers,
- a preference for collaborative options where scale could be delivered where appropriate without disrupting current governance arrangements (noting this was predicated on appropriate scale for each asset class rather than a total £50bn across all asset classes)
- the risks of seeking scale outside of the LGPS, including different approaches to ESG
- shareholder v client model and associated governance and financial risks associated with the different models

**Q2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?**

The majority of listed assets within the Partnership are already with Brunel so any proposal here was unlikely to have an impact on the Brunel Funds. However, Funds linked this question to Q1 and the need for Government to make the existing pooling arrangements more effective. It was agreed that pooling could never be fully effective if Funds were able to ignore the requirements without clear justification. Therefore there should be mandatory requirements to pool all listed assets by a given deadline or include an explanation in the Investment Strategy Statement why the Fund had determined not to comply.

**Q3. Should Government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics above?**

Funds again felt that the Brunel Partnership was operating largely within the guidance set out by the Government and therefore there would be little impact on Funds from the proposal. Again, though Funds welcomed the proposal as part of changes to ensure the effectiveness of the current pooling arrangements across England and Wales. In agreeing that it was the responsibility of Funds to set their own strategic investment strategy, it was noted that this included their approach to responsible investment as well as broad asset classes and level of risk.

Funds did not agree with the proposal that the pool companies should be offering advice on investment strategies to Funds and suggested that this proposal introduced a potential conflict of interests.

**Q4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?**

Funds were broadly supportive of this proposal, with many already having existing arrangements in place.

**Q5. Do you agree with the proposals around reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so, how should this requirement operate?**

Funds broadly supported the requirement that all funds should report in a consistent way against a broad set of asset classes (although see Q10 below).

Funds though did not support a requirement that such reports should be against a consistent benchmark. The benchmark chosen and target performance against a given benchmark were dependent on the level of risk agreed by Funds as part of their investment strategies as noted in the response to Q3 above. Publishing net returns against a consistent benchmark would therefore likely lead to misinterpretation of the results and inappropriate comparisons.

**Q6. Do you agree with the proposals for the Scheme Annual Report?**

Subject to the comments around a consistent benchmark in Q5 above, the Funds supported the proposals for the Scheme Annual Report.

**Q7. Do you agree with the proposed definition of levelling up investments?**

Funds noted that the responsibility for defining levelling up sat with Government and was not an appropriate matter to be determined by the LGPS. However, Funds noted that subject to the comments below on the appropriateness of the Government setting requirements for Funds to publish levelling up plans and report on the total investments against such a plan, and definition of levelling up needed to clear and

capable of being shared with third party fund managers as part of portfolio specifications.

The Funds noted that the 12 medium-term levelling up missions were very broad in their nature and therefore open to significant interpretation. As many of the investments would be made by 3<sup>rd</sup> party fund managers this would run the risk of significant inconsistencies in whether investments met the levelling up criteria. For example, does an investment in a major UK pharmaceutical company developing new drugs etc to support the well-being of the local population meet the criteria?

**Q8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?**

Consistent with the responses in Q1 and Q3 above, the Funds support the proposal that their pool can choose to invest through another pool's investment vehicle where the pool company determines that is the most appropriate way of meeting the investment strategies of their underlying Funds.

**Q9. Do you agree with the proposed requirements for the levelling up plan to be published by Funds?**

The Funds did not support the Government prescribing a specific figure against which they should publish an investment plan and felt that this led to a potential conflict with the over-arching fiduciary duty of the Fund. Funds were concerned that the requirement to include a levelling up plan as part of their published investment strategy statements, including current levels of investments and future targets (subject to the clarification of the definitions as referred to in Q7), placed additional burdens on Funds with no clear benefit to their primary fiduciary duty.

**Q10. Do you agree with the proposed reporting requirements on levelling up investments?**

Funds noted that the proposed reporting requirements as set out in the consultation document, were again a further unfinanced burden at a time when we were facing significant challenges associated with implementing the McCloud remedy, preparing for the Pension Dashboard and TCFD reporting. The extent of this burden was subject to having greater clarification on what constituted a levelling up investment.

It was also noted that it was likely that levelling up investments would be across the standard asset classes and would therefore be additional to the broad asset class reporting requirements covered in Q5 above. The question of what if any reconciliation would be required between these two reporting requirements should be further considered.

**Q11. Do you agree that Funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are their barriers to investing in growth equity and venture capital for the LGPS which could be removed?**

Funds do not support the Government suggesting an ambition to invest any specified amount in private equity. As noted in Q9 above, such a proposal is seen in direct conflict with the fiduciary duty of the Funds.

It was noted that there was some confusion over the Government's objectives under this proposal and the specification that the 10% allocation should be in private equity. The specific Government proposal did not include any requirement that the investments in private equity should have any UK component. It was also the case that the Government objectives could also be met through investments in alternative private market asset classes including private debt and infrastructure. It was agreed the Government should clarify their objectives in this area and revised proposals developed, without the specification of a target allocation.

It was noted that Fund's already have exposure to growth equity and venture capital and that therefore there were no real barriers to such investment. If investible opportunities arose, Funds would be happy to consider an investment if it was consistent with their own investment strategy.

**Q12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise with the Bank's expertise?**

As noted in Q11, the main barrier to investing in growth equity and venture capital is the lack of suitable investment opportunities of the appropriate scale and risk level for the LGPS. To the extent that the British Business Bank can utilise its expertise to identify and co-ordinate suitable investment opportunities, the Funds would welcome future collaboration.

**Q13. Do you agree with the proposed implementation of the Order through amendments to the 2016 regulations and guidance?**

The Funds supported the setting of objectives for investment consultants and the proposed approach to implementation of the Order.

**Q14. Do you have any comments on the proposed amendment to the definition of investments?**

The Funds supported the proposed amendment to tidy up the existing regulations and remove any ambiguity.

**Q15. Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so, please provide relevant data or evidence.**

The Funds agreed with the Government's assessment that there would be no direct impact, and potential beneficial impacts on protected groups from any increase in levelling up investments.