Oxfordshire Pension Fund
www.oxfordshire.gov.uk/pensions

OXFORDSHIRE COUNTY COUNCIL

Sent via email to pensions.review@hmtreasury.gov.uk

Pensions Investment Review: Call for Evidence

Summary

A Call for Evidence has been published inviting input, data and information from interested parties to inform the first phase of the Pensions Investment Review. This first phase aims to boost investment, increase pension pots and tackle waste in the pensions system

Scale and consolidation

1. What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?
2. What should the role of Single Employer Trusts be in a more consolidated future DC market?
3. What should the relative role of master trusts and GPPs be in the future pensions landscape? How do the roles and responsibilities of trustees and IGCs compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?
4. What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?
5. To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

Oxfordshire currently has 89% of its assets invested through the Brunel pool, which reflects our commitment to pooling and also the relative success of Brunel and the model of pooling adopted. Across all partner funds within Brunel, 86% of assets have been pooled, totalling £40.8 billion as at June 2024.

Brunel is an FCA-regulated, limited company, that is owned by the administering authorities of its 10 LGPS partner funds as equal shareholders. Brunel's operational governance and strategic direction is provided by an 8-strong board (5 non-execs and 3 execs), this is set in consultation with three key fund partner bodies:

- ***Client Group*** *– meets twice monthly and is comprised of senior employees at the partner funds. Investment products and policies are developed in concert with the Client Group.*
- ***Brunel Oversight Board*** *- meets 5 times a year and is comprised of pension fund committee members (typically elected councillors) and 2 membership representatives. A non-voting body which provides an opportunity for pension funds' views to be heard.*

- ***Shareholder Forum*** *- consists of administering authority employees (typical section 151 officers). These are referred to as Shareholder Representatives. These meets are on an ad-hoc basis. Shareholder Representatives have the power to vote on matters requiring approval via a reserved matter.*

The primary objective of Brunel is to enable each partner fund to deliver on its fiduciary duty to its members. Brunel adopts a strong approach to Responsible Investment that has been developed in conjunction with the partner funds.

Brunel is the only pension pool in the UK to have focused on Responsible Investment for the past seven years. That extended focus makes Brunel unique amongst its peers for investing across much of the breadth of the ESG agenda and thus very well-placed for delivering further sustainable investment into the UK.

When measured regarding value for money and long-term risk adjusted returns, it is more difficult to provide evidence to support whether asset pooling has been a success. Pools were established less than a decade ago and the returns don't have a long enough track records to produce any fair or meaningful statistics from which to draw any conclusions. Furthermore, the initial set up costs of the pools will not reach breakeven point for a number of years. Our view is that there has been insufficient time for the existing pool models to embed and as such focus should be provided to continue the transition of assets to pools and in developing new investment opportunities within the pools, which also aligns with the Government aim of more rapid investment in the UK. For example, assets such as affordable housing, which we are currently in discussions with our pool around, how this can be best supported, reflecting we are unweight in our property allocation and are actively seeking opportunities that align with our fiduciary duties.

Access to wider asset classes has been provided by pools, however, this is most beneficial to smaller funds where they would have insufficient scale to access more niche areas, however in all Funds it has seen some monitoring and management move from Fund to pool, freeing up Fund resources.

Costs vs Value

1. What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?
2. Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

Investing in the UK

1. What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?

We welcome the recent clarification at the LGC Investment & Pensions Summit, where it was confirmed, this was pool consolidation as opposed to individual Fund consolidation referred to in this question. As such we have prepared our response referring to LGPS pooling consolidation only. Further pool consolidation is unlikely to increase Oxfordshire's investment in the UK asset classes. Our view is that further structural changes with the aim of consolidation

would likely take in the region of 5+ years to complete. This is based on the length of time it took to establish the existing pools and that the complete transition of assets has yet to be completed. Further pool consolidation would most likely move the focus away from additional UK investing and lead to the focus on structural changes in the pools for the medium term, thereby delaying investment into the UK. We believe this would be counterproductive to Government aims to encourage more UK investment.

We do not believe that lack of scale is preventing more investment into the UK. Pools are already investing into the UK, one of the largest challenges is finding suitable UK investment opportunities offering a risk-adjusted return competitive when compared to the global markets. It is also worth noting that the FTSE100 is not representative of UK companies as it has a more global slant, whereas the FTSE250 is more aligned and holds a higher proportion of companies based in the UK, as such we have already made further commitments towards the FTSE250.

However, further clarification from Government would be useful on the types of investments that would be made available. For example, large UK infrastructure could require larger scale, whilst at the same time this could then result in other investments in the UK, becoming too small scale to warrant attention and then investment, such as affordable housing. It seems that Government objectives could be achieved across all scale of assets through the UK National Wealth Fund. If an array of UK investments could be made available via the UK National Wealth Fund, this would then support rapid investment in the UK. Thus, allowing Funds and pools to work together as required, whilst achieving the aim of increasing UK investment at the same time, selecting the best risk-adjusted returns in line with fiduciary duties.

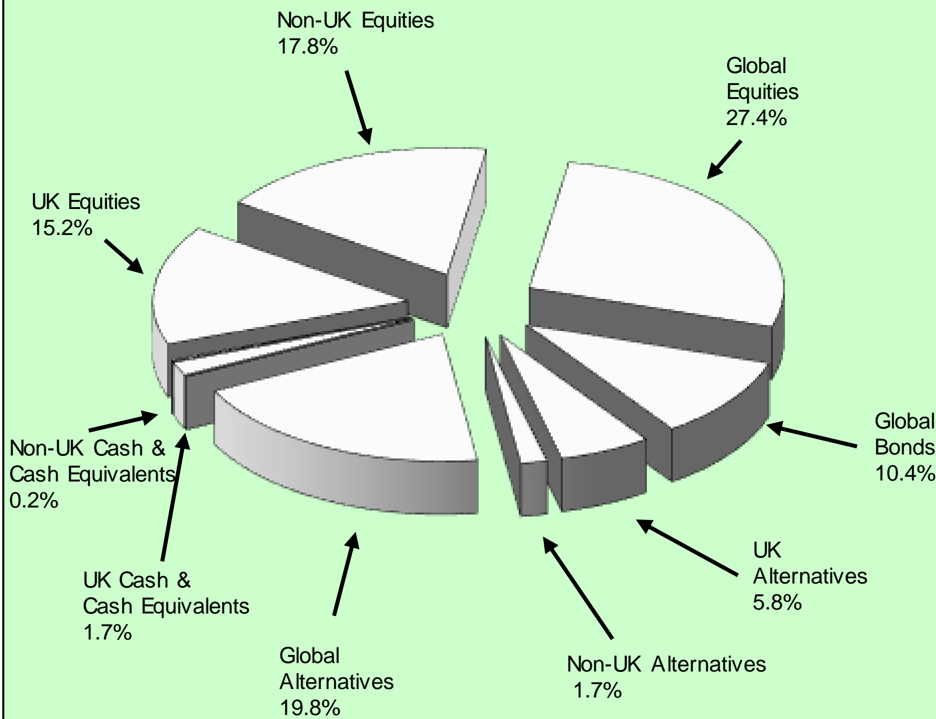
2. What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?

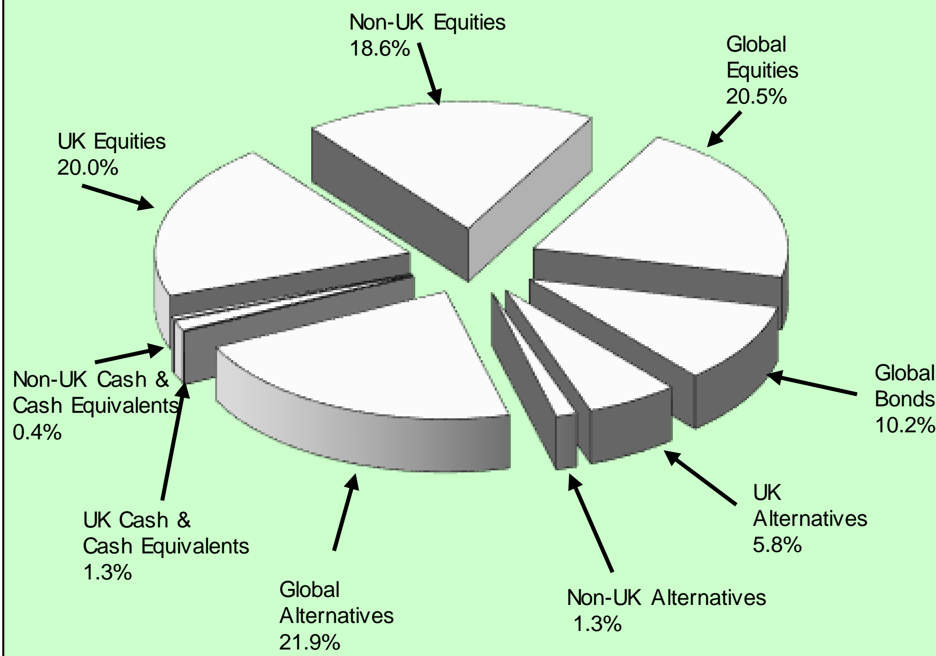
The fiduciary duty to seek the best risk-adjusted returns has impacted the proportion of UK investments held. The need to diversify and seek the best risk-adjusted returns has made overseas investments increasingly attractive. This is not to say UK investments are unattractive, however as part of a diversified portfolio, seeking the best investment returns has driven the move towards overseas investment.

Factors such as the 0.5% stamp duty on UK equities acts as a barrier to investment, making the UK less attractive relative to overseas investments who offer a more favourable tax regime and better opportunities for growth. An example is that UK markets are underweight in technology stocks, which is one of the largest areas of growth in recent years.

Our current investments in the UK are included below, we are able and willing to invest more in the UK where the risk-adjusted returns are sufficiently attractive.

As detailed below our exposure to UK asset has decreased over the previous 12 months to 31 March 2024:





With a total fund value as at 31 March 2024 of £3.527 billion, we have £931 million invested in the UK, or just over 26% of our assets invested in the UK:

£m Asset Values as at 31 March 2024	Pooled	Under Pool Management	Not Pooled	Total
UK Listed Equities	414	-	-	414
UK Government Bonds	230	-	-	230
UK Infrastructure	16	-	23	39
UK Private Equity	20	-	228	248
Total	**680**	**-**	**251**	**931**

3. Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

The current LGPS governance structure naturally aligns with local and regional growth aims, with local councillors on Committees and member and employer representatives on Boards. Many LGPS Funds including Oxfordshire as part of our strategic asset allocation and in line with our fiduciary duty, seek the best risk-adjusted returns and already invest in the UK. Where opportunities exist in the UK, Funds have invested for example in renewable energy such as wind and solar, along with affordable housing. We believe the desire to invest in the UK is there when sufficient opportunities are made available, these could be made available through the UK National Wealth Fund.

The purpose of the LGPS is to pay pensions to members as they fall due and manage risk for employers, without a particular preference to the UK. In order for Funds to tackle these issues it would require redefining of the term fiduciary duty, to make reference to the responsible and impact investing with a UK focus.

The LGPS holds a unique position as a Public Service Pension Scheme that is funded and also holds taxpayer risk. Therefore, Government could consider incentives directed at incentivising LGPS investment in the UK, such as reducing planning regulations for LGPS backed affordable housing initiatives. Provision of Government land for LGPS investment. Tax incentives, removal of stamp duty when investing in UK markets are to name a few.

The LGPS are investors over the long term and as such the stability of the regulatory landscape is of vital importance, Government guarantees around this framework could help to build confidence in long term investment in the UK which would benefit all parties involved.