UNISON South West

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Re: Consultation Document: Local Government Pension Scheme (England and Wales): Next Steps on Investments

Thank you for the opportunity to comment on the consultation document: Local Government Pension Scheme (England and Wales): Next Steps on Investments.

This consultation response is submitted on behalf of the SW UNISON Local Government Pension Scheme committee which has membership from the ten funds within the Brunel Pension Partnership representing those scheme members within UNISON both active and retired.

There appears to some confusion throughout the consultation document as to the role of the Pools and the funds. The pools are servants of the funds and are not responsible for the investment decisions of the funds as has been suggested in this document.

The Brunel Pension Partnership was set up in 2018 following the completion of a thorough business case approved by all ten of the partner funds. At all stages, the representatives of the scheme members were consulted and included in the discussion and decision making process.

It would seem strange that as we are now at the stage of achieving the forecast savings brought about due to pooling that further changes are proposed which will nullify these due to the inevitable resultant costs of further reorganisation. The Fund reached the point in 2022 , when the cumulative savings achieved exceeded the initial costs of set up and transition. Therefore, we are now in the position of harvesting the savings achieved.

Given that it took 4 years to break even, based on savings achieved versus transition costs incurred, and that we are now achieving significant savings each year, the concern is that the proposals should not result in another round of significant transition costs that negate the savings that now have been achieved as a result of the implementation of the original pooling proposals.

It is noticeable that no financial estimate or cost benefit analysis for these proposed changes has been included in the consultation and this is a noticeable omission.

Answers to the specific questions posed are provided below:

<u>Question 1</u>

The Brunel pool is working well. 90% of client assets have now transitioned to the pool. It is recognised that other pools have not all made the same level of progress, and our view is that the Government should focus on addressing the barriers that are preventing other pools from working effectively. Those pools, such as Brunel, who are working effectively should be allowed to continue with minimum disruption.

While the pool's assets are currently below £50 billion, we would urge the Government not to be too fixated on a particular number in terms of a pool's assets under management, but to consider a range of criteria in analysing how well the existing pools are performing and what action is required to support the delivery of excellent value for money and outstanding net performance. We would support greater collaboration between pools as an alternative to forced mergers between pools.

There appears to be no evidence put forward as to the origin of the £50bn figure and it appears to have been plucked out of thin air.

<u>Question 2</u>

The majority of Funds in the Brunel have already transitioned their listed assets to Brunel, our LGPS pool, well in advance of the proposed March 2025 deadline.

<u>Question 3</u>

As indicated earlier there appears to be an element of confusion in the consultation document over the role of the funds and the pool. Responsibility for setting the investment strategy should remain with the individual LGPS funds. The pool's responsibility is to implement the strategy of each of its client funds.

The original pooling proposal aimed to take manager selection away from the individual funds and make it the responsibility of the pool. We support the idea that if an LGPS fund wishes to invest in e.g. a core global equity portfolio, then the pool should provide such a portfolio and be responsible for selecting a manager or managers to manage that portfolio (or provide internal management). Where more than one manager is selected for a portfolio, then it should be for the pool to allocate funds between the managers on the same basis for each client, and it should not be permissible for the individual LGPS Fund to decide which of the managers it wishes to allocate funds to.

The pool should not provide more than one core global equity portfolio with different managers for different portfolios which would then effectively enable individual LGPS funds to retain the ability to choose a manager.

The pool should, however, provide a range of asset classes and equity portfolios with different risk and return characteristics, e.g. emerging market equities, smaller company equities, sustainable equities, choice of active/passive, in order to meet the requirements and implement the strategies of each client fund.

We do not believe it is the pool's role to act as investment consultants for client funds in determining their investment strategy.

Question 4

We consider that all members of the investment boards and the Pensions boards should be adequately trained. We therefore support this proposal.

Question 5

We would not support reporting against standard benchmarks. The choice of benchmark reflects the level of risk and target return required from an investment portfolio, which will be different depending on the investment strategy.

A standard benchmark across all funds and/or pools would influence the investment strategy in an unhelpful way. If the objective is to compare the investment performance of funds, then that can be done through comparison of net returns, without the need to enforce standard benchmarks.

Question 6

We are happy with the proposals for the Scheme Annual Report.

Question 7

Many of the funds already has significant investments in UK infrastructure. In addition, several of the funds have started to invest in a local impact portfolio. We believe that these investments would contribute to the Government's levelling up agenda.

In relation to the requirement to set these out in a plan and report on them through the Fund's Annual Report it is difficult to quantify how this would be done as the Levelling Up proposals are not specific to a region or geographic area such as a county but across the whole of the UK.

Detailed information as to what are the levelling up proposals are is difficult to quantify in detail as there does not appear to be a detailed list of proposals rather a general political statement.

The aim of the local impact portfolio is to invest both within the fund area but also across the wider South West, recognising that there is a need locally to level up to more prosperous areas. but we would urge that the Government recognise that when funds are looking at local investments there may be a requirement to work with fund managers outside the pool arrangements, as the pools will be focusing on a wider area and larger scale investments that may not allow for a more localised investment.

Individual LGPS Funds will need to ensure that conflicts of interest are managed, but adopting an over-prescriptive approach to investing through the pool on such investments may risk undermining local aspirations and the achievement of the Government's agenda on levelling up.

It is noticeable that of those investments made by the United Kingdom Investment Bank (UKIB) after Brexit between 2017 to 2023, compared to the EIB investments previously, leaves the South West one of the least supported regions. (Source UKIB 2023)

<u>Question 8</u>

We believe that funds should be committed to one pool, but if that pool in consultation with the funds then decides that the best way to deliver the required investment is to invest in another pool's investment vehicle, then that should be permitted and encouraged.

<u>Question 9</u>

We would support the inclusion of the levelling up plan within each fund's Investment Strategy Statement, rather than as a separate policy.

<u>Question 10</u>

No Comment

<u>Question 11</u>

Many of the funds have invested in private markets. Several of the funds have introduced local impact portfolio's such as Cornwall, Devon and Wiltshire. This requires disinvestment form other funds to create these and these local investments will also be in the in the private markets space.

However, private equity is at the higher risk end of the potential investment solutions available to pension funds. The mandating of a set minimum percentage to be invested in private equity would be in conflict with the fiduciary duty to act in the best interests of fund members. While the Government may want to encourage the LGPS to invest more in private equity it must stop short of mandating such investment.

Previously, the Government has had an ambition for LGPS funds to invest 10% in infrastructure. It is unclear from the consultation document whether the definition of private equity includes unlisted infrastructure. If the 10% proposed allocation to private equity is additional to a 10% ambition for (mostly unlisted) infrastructure investments, that makes a 20% allocation to a high-risk area of the market. This may be above the risk appetite for some funds.

Many funds also have an allocation to private debt, which would also support the Government's aspirations to support growing businesses. It would therefore be helpful for the Government to be clearer on whether the 10% objective is across private markets or a much narrower definition of private equity.

Another aspect that the Government needs to consider is that the requirements on unlisted companies with respect to ESG issues, and specifically on climate reporting, are currently lower than they are for listed companies. Given the Government's intention to require LGPS Funds to increase the extent of their climate related reporting, it may be more difficult to source the data they will need from an increased allocation to private equity.

The question asks about the barriers to investment in growth equity and venture capital. One barrier is the level of risk involved in such investments, which may mean they are not suitable for inclusion in a fund's investment strategy where they are looking to de-risk. As set out above, the Government should not seek to force LGPS funds to invest in an asset class where it does not fit with the fund's risk management approach.

A further barrier is the availability of appropriate investment opportunities. The Government needs to do more to encourage the provision of more transparent investment opportunities if it wants to encourage investment, at the appropriate level of risk and potential return.

Setting parameters or expectations, in this case towards investing in private equity, detracts from the freedom of LGPS funds to invest in the best interests of their scheme members, which is the fiduciary duty of every LGPS fund.

LGPS funds are rightly under pressure to decarbonise their portfolios and invest in line with the 17 UN sustainability goals and moreover be Paris accord aligned. We are not convinced that investment options in the levelling up category do or will meet these prescriptions. To proceed down this line therefore could draw LGPS funds into conflict with their own responsible investment policies, which are in place to meet their fiduciary duties.

Question 12

As set out above, the lack of availability of suitable investment opportunities can be a barrier to the LGPS investing in the UK.

Fiduciary duty requires that LGPS funds will need to independently assess the suitability of any investment opportunities that come out of any collaborative approach and should only invest where they fit with the fund's risk parameters. The Government should not seek to mandate investment in any particular project.

A particular and serious dilemma resulting from Brexit has been placed at the door of the LGPS by this consultation:

Within paragraphs 88 to 90 of the consultation the objective of the government is to see LGPS funds diverted into venture capital and growth equity related to levelling up. This will include infrastructure.

There is no mention in the consultation of the drivers for this. Pre Brexit the European Investment Bank (EIB) financed some of the most critical infrastructure projects in the UK. Post Brexit the UK has lost access to EIB finance!

In an attempt to offset this the UK created or expanded 4 development banks to try and replace the lost investment. However, they have only been able to replace a third of the EIB investment and it is clear that the attempt by Government to direct LGPS funding is as a result of this. The Government should be reminded that as a result of the 2020 Supreme Court decision that assets within the LGPS are “not public money” to be diverted into whatever scheme the government comes forward with.

The UK’s development banks have come to the fore since Brexit when access to funds within the European Investment Bank stopped. Whilst the British Business Bank will have expertise, the collective expertise within the LGPS, its Pools and manager mandates will at least compare.

We do not therefore accept the premise or the expectation that there should be one-way collaboration with the British Business Bank, particularly if the context is restricted to private equity / infrastructure linked to levelling up. Again, we hold that this would be in conflict with fiduciary duty.

<u>Question 13</u>

We support setting strategic objectives for investment consultants.

<u>Question 14</u>

This appears to be a straight-forward tidying up amendment, so we support it.

<u>Question 15</u>

We do not consider that there are any particular groups who would either directly benefit or be disadvantaged by any of the proposals.

Yours Sincerely

A C Bowman

Chairman
UNISON South West Regional Local Government Pension Scheme Committee