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Submitted to Local Government Pension Scheme (England and Wales): Next steps on investments
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Chapter 1: Introduction

Chapter 2: Asset pooling in the LGPS

1 Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

Call for evidence:

Wiltshire is part of a pool with a high level of transitioned assets, the establishment of listed portfolios and private market investment opportunities by our pool has enabled this effective transition. Wiltshire itself has transitioned 70% of assets to pool ownership, this figure will grow as commitments to private market investments are called. Wiltshire has incurred considerable costs in transitioning assets and time spent working to establish the pooling company.
We recognise 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.
The pool has taken several years to establish and to reach the position where running costs are being covered by savings, and we have still not reached a point where pooling has delivered our fund a net saving. Further consolidation would certainly add more costs and delay further our point of breaking even from pooling.
Forcing further consolidation and transition would divert attention from delivering investment returns and delivering new investment portfolios to allow our fund to increase the percentage of assets transitioned. It would also distract funds and pools from delivering on responsible investment and climate reporting goals alongside levelling up and private equity ambitions, which are all current or proposed objectives for the LGPS and its Pools.
There remain existing barriers to the delivery of effective pooling and issues for Government to consider in driving for consolidation and growth in pool size. Further growth of the pools and the ambition to have in house management of investments may lead to exponential growth in the running costs of pooling companies, caused by the exceptionally high remuneration for pooling company staff from investment backgrounds in the context of local government salaries.
Therefore, 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.

2 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?

Deadline for pooling of listed assets:

Wiltshire Pension Fund has transitioned the majority of its listed assets, some remain outside of the pool. These portfolios are held outside as an equivalent is not available within the pool, some also play a role as an interim portfolio whilst private market commitments are drawn down. The mandatory deadline for the transition of all listed assets to the pools could result in unnecessary transition costs or the loss of essential elements of our investment strategy, ultimately leading to decisions not being made in the best financial interests of the Fund, and delivering poorer outcomes
Mandatory transfer of assets also provides no incentive for the pools to offer an effective and fee saving portfolio for administering authorities. It could lead to investments incurring transition costs or being closed just to meet a mandatory deadline. If the pools offer effective portfolios which meet the needs of administering authorities then the logical financial decision for better investment and fee outcomes will mean funds will transition.
Therefore we do not support the proposal of a mandatory transition deadline for listed assets.

3 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 described above?

Pooling guidance:

We agree with the statement that responsibility for setting the investment strategy should remain with the individual LGPS funds. It is therefore the pool's responsibility to develop portfolios such that Funds are able to implement their strategies.
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. 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.
We support the statement that pools should operate as a single entity and that inter pool competition is not desirable, but that inter pool collaboration should be encouraged.
We absolutely do not believe it is the pool's role to be advising funds on their investment strategy, this is a clear conflict of interest, funds require external independent assessment of the effectiveness of the pool and how well it is meeting investment targets.
It is vital that Funds are able to hold pools to account appropriately in order to ensure that they are delivering value for money and the best outcomes for the Funds and their stakeholders. This can only be achieved through proper separation between setting the strategy, implementation, and monitoring, which requires proper transparency of reporting to Funds in order to ensure that this can be done effectively.
Pools should focus on the implementation and delivery of effective investment portfolios to meet the needs of the partner funds. It does not hold the risk and accountability of the pension fund liabilities, therefore it should not be implementing the investment strategies, particularly when it may not be responsible for all of the fund assets.

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

Training policy:

Yes we feel this is a reasonable recommendation and aligns the discrepancy between Local Pension Boards and the Committee.

5 Do you agree with the proposals regarding 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?

Reporting:

We support the proposal for each fund to report in a consistent way against a set of broad asset class headings through their annual reports and statistical returns. This form of reporting in a consistent manner is regular across many other public sector organisations and would provide a useful source of information for comparison across the sector.
We urge caution over the inclusion of a net savings figure achieved from pooling. Our own independent review of pooling fee savings concluded assessing fee savings against historic rates paid pre pooling was effectively meaningless. We would rather have a focus on reporting how effectively pools are performing against relevant peers and the wider investment market. The accountability for delivering savings sits with the pools and they need to be demonstrating this against other peers and not against historic fee rates from when pooling commenced.
We do not support a requirement to report against a standard benchmark for each asset class. Specific benchmarks are selected based on the investment criteria of each portfolio and should be used by each fund as such. The accurate reporting of net returns by asset class would easily allow central comparison of net returns if required.

6 Do you agree with the proposals for the Scheme Annual Report?

Scheme annual report:

Yes we agree with this proposal, the existing scheme annual report appears outdated and irrelevant without this information on assets.

Chapter 3: LGPS investments and levelling up

7 Do you agree with the proposed definition of levelling up investments?

Levelling up definition:

The definition of levelling up investments proposed appears to be reasonable and in line with the existing Governments intentions on this policy. We are supportive of the extended geography to include the whole UK as it allows funds to source the best opportunities and to avoid over concentrated regional risk.
We do question how relevant the levelling up missions are if this current government aim of levelling up then changes and funds have made long term commitments.

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

Inter-pool investment:

We believe that funds should be committed to one pool, but if that pool 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.
However we are concerned about the impact this new market will have on the pools focus, their attention may be on winning new money from other external funds whilst ignoring the needs of their own client funds.

9 Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Levelling up plans:

We would support the inclusion of the levelling up plan within each funds' Investment Strategy Statement, rather than as a separate policy. However, on principle, we do not believe that Fund's should be asked to invest in a certain way, as a blanket approach would not necessarily be suitable for individual investment strategies, and could compromise Funds' abilities to achieve their funding targets. If attractive investment opportunities which contribute to levelling up are available, then Fund's will logically participate in these opportunities. We also feel that the government making a requirement for funds to invest on government policy priorities can be considered a conflict of interest.

10 Do you agree with the proposed reporting requirements on levelling up investments?

Levelling up reporting:

We are happy to report on levelling up investments within our Annual Report. Pools will need to be able to produce the required data in respect of such investments made through the pool. We already report on our affordable housing portfolio alongside our annual report.

Chapter 4: Investment opportunities in private equity

11 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 there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

10% ambition in UK and global private equity:

Wiltshire Pension Fund already has a 7.5% allocation to private equity which it has been building up via investment portfolios run by its pool. This allocation percentage is set with reference to the risk appetite of the committee and the actuarially assessed required investment return.
The fund does not believe that government setting a vague ambition of a 10% allocation is a responsible way to increase investment into this illiquid, high risk and high fee asset class.
It is also not clear if the number of opportunities are available for funds to invest in across the UK. Making an allocation to private equity may not lead directly to the aim of increased investment in the UK, given the global nature of investment opportunities in a diversified portfolio, increasing the allocation to PE could just lead to more overseas investments.

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.

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

British Business Bank:

The lack of availability of suitable investment opportunities can be a barrier to the LGPS investing in the UK. If working with the British Business Bank helps to overcome that barrier and results in an increased provision of suitable investment opportunities, with the appropriate level of risk and return expectation, then the Wiltshire Fund would support that.

Chapter 5: Improving the provision of investment consultancy services to the LGPS

13 Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

CMA order:

The Wiltshire Fund already does set strategic objectives for our consultants, we would support this proposal.

Chapter 6: Updating the LGPS definition of investments

14 Do you agree with the proposed amendment to the definition of investments?

Definition of investments:

This appears a regular tidying up amendment, we have no comment.

Chapter 7: Public sector equality duty

15 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.

Public sector equity duty:

None

Annex A: List of consultation proposals

About this consultation