

## Appendix A - LGPS Investment Consultation

### ChatGPT summary (edited by Head of Pensions and Treasury)

#### Source response [linked](#)

- 1.1 The consultation closed on October 2, 2023, with 152 responses received from various stakeholders.

### Pooling Structure and Direction

- 1.2 The government's focus on asset pooling within the Local Government Pension Scheme (LGPS) aims to enhance efficiency, value for money, and responsible investment. It seeks accelerated consolidation of LGPS assets to achieve scale, promoting collaboration among existing pools. While acknowledging positive responses to this direction, concerns were raised by respondents about the potential negative impacts of reducing the number of pools, including transition costs and administrative burdens.
- 1.3 The government proposes a long-term goal of achieving fewer pools with assets under management averaging £200 billion, aligning with estimates that the LGPS could reach around £950 billion in assets by 2040. However, the government emphasizes a collaborative approach and encourages pools to consider specialization and build on existing strengths to deliver the benefits of scale.
- 1.4 The consultation also addresses the timetable for asset transition, proposing a deadline of March 2025 for liquid assets to be transferred to pools. Responses varied, with concerns about the feasibility of the timeline and potential market impacts. Despite opposition, the government intends to proceed with the deadline, emphasizing the need for a significant shift to realize the full benefits of pooling.

### Governance and Training

- 1.5 Governance and decision-making are critical components, with the government proposing a model emphasizing delegation of strategy implementation and manager selection to pools. Responses were mixed, with concerns about conflicts of interest and the clarity of responsibilities. The government plans to revise guidance to encourage this model, recognizing the importance of effective governance in achieving the benefits of scale.
- 1.6 Training for pension committee members received overwhelming support, with a proposed requirement for administering authorities to have a training policy. Respondents highlighted the potential benefits of increased knowledge and skills among committee members for informed decision-making.
- 1.7 The government aims to improve transparency through standardized reporting on asset allocation, pooling progress, and savings achieved. While respondents generally supported these proposals, concerns were raised about benchmarking returns, leading the government to reconsider and allow funds to report performance against a benchmark of their choice.

- 1.8 Expanding the Scheme Annual Report to include pooling progress and asset allocation received strong support, with stakeholders recognizing the value of consistent reporting across all funds.

### **Levelling Up**

- 1.9 The government restressed its ambition, outlined in the Levelling Up White Paper (LUWP), to utilize Local Government Pension Scheme (LGPS) funds to support projects aimed at reducing regional disparities in the UK. The goal is to invest up to 5% of assets under management (AUM) in projects fostering local development and equality.
- 1.10 The proposed definition of levelling up investments requires contributions to LUWP missions and support for any UK local area. While 64% of responses supported the broad definition, concerns were raised about vagueness and interpretational issues. Some respondents suggested clarity on "measurable contribution" and the term 'local', with considerations for prioritizing deprived areas or supporting the transition to renewable energy.
- 1.11 The government welcomes the positive response but acknowledges the need for additional clarity. It maintains the importance of a broad definition, allowing flexibility for administering authorities to collaborate with fund managers. The concept of "levelling-up bonds" is acknowledged but not deemed necessary. Authorities are encouraged to work with pools for due diligence, though small-scale projects may fall outside pool investments.
- 1.12 Regarding the ability of funds to invest through their own pool in another pool's investment vehicle, 65% of responses supported the proposal. The government emphasizes the benefits of increased collaboration, access to specialized expertise, and a broader range of investment products. However, concerns about potential conflicts of interest are noted, and the preference is for investments to be made through one's own pool.
- 1.13 Regarding the requirement for LGPS funds to publish plans for increasing local investment, opinions were divided, with 53% opposed and 25% in favour. Concerns centred around fiduciary duties, potential impact on investment quality, and the necessity of the proposed plan. The government responds by revising guidance to mandate a plan to invest up to 5% in levelling up projects within a diversified strategy.
- 1.14 Regarding proposed reporting requirements, 42% were opposed and 37% in favour. The government acknowledges concerns about the reporting burden and proposes phased implementation over a three-year period. Annual reports will include progress against plans with an emphasis on best endeavours and collaboration with stakeholders for effective reporting templates.

### **Private Equity**

- 1.15 The government suggested a doubling of the current allocation into private equity, with an ambition for LGPS funds to invest 10% of their assets in private equity as part of a diversified portfolio. The aim was to drive investment, enhance returns, incentivize UK company growth, and seize future opportunities.

- 1.16 However, the summary of responses indicates that 84% of the 144 respondents opposed the proposal. Concerns primarily centred around a perceived conflict with fiduciary duties, the appropriateness of a government ambition, the higher risk associated with private equity, and potential impacts on investment costs and liquidity. Respondents also debated the definition of private equity, with some suggesting a broader inclusion of private markets investments, including private debt.
- 1.17 The government's response emphasizes its commitment to unlocking capital for growth businesses, improving pension fund returns, and reforming the pensions landscape. It sees the LGPS, with its long-term time horizon, as well-placed to benefit from potentially higher-return but more illiquid investments. The government clarifies that the 10% ambition does not mandate investment; it sets a guideline for funds to consider private equity opportunities within their diversified investment strategies.
- 1.18 The government acknowledges the importance of private markets, including private debt, and stresses that LGPS funds have the autonomy to decide on other appropriate investments in line with their risk management and fiduciary responsibilities.
- 1.19 Regarding collaboration with the British Business Bank (BBB), the government received 128 responses, with 57% supporting the proposal. Respondents recognized the BBB's effectiveness but expressed concerns about its short track record. The government's response includes plans to encourage LGPS pools to strengthen partnerships with the BBB to explore opportunities in venture capital and growth equity. The BBB is also exploring the possibility of a government-led investment vehicle to facilitate pension fund investments into high-growth companies.
- 1.20 In conclusion, the government remains committed to the 10% private equity ambition, emphasizing its non-binding nature and the need for a balanced risk-return approach by LGPS funds. Collaboration with the BBB is encouraged as part of efforts to support and achieve the proposed investment goals.
- 1.21 The Consultation acknowledges that this is an ambition rather than a target. Officers will consider how this ambition can be incorporated within the Fund's future Investment Strategy Statement.

### **CMA alignment, definition of investments and equalities impact**

- 1.22 This response addressed proposed amendments aligning LGPS fund requirements with the 2019 CMA order, focusing on setting strategic objectives for investment consultants. Of 118 responses, 94% support the proposal, citing transparency, accountability, and consistency. Some concerns were raised about exempting pool companies owned by LGPS funds and the status of independent advisers. The government plans amendments to LGPS regulations, extending objectives to all providers, including pools. Revised guidance will also be prepared which will address the concerns raised
- 1.23 The consultation proposed technical changes to the Local Government Pension Scheme (LGPS) definition of investments. The amendment aims to address an inconsistency identified in the 2016 regulations by adding the term 'partnership' to regulate unquoted securities investment partnerships. The majority (89%) of the 83 responses supported the change, citing its potential to clarify regulations and eliminate

ambiguity. The government intends to implement the amendment, emphasizing consistency and clarity.

- 1.24 The response towards Public Sector Equality Duty was interesting. Of the 152 responses, 7% identified potential effects on specific groups. Concerns were raised about LGPS benefits and why an Equality Impact Assessment was not conducted. The government's response clarifies that member benefits are statutorily guaranteed, unaffected by LGPS fund performance. The proposed reforms are not expected to adversely impact protected groups, with potential indirect benefits for those in deprived areas through levelling up investments.