Gloucestershire County Council

LGF Pensions Team

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To whom it may concern,

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 Gloucestershire County Council in its capacity as the Administering Authority for the Gloucestershire Pension Fund and has been approved by the Pensions Committee at its meeting on 22 September 2023.

The Gloucestershire Pension Fund is a shareholder and client of the Brunel Pension Partnership (Brunel). Brunel was set up in 2018 following the completion of a thorough business case approved by all ten of the partner funds. The business case set out the forecast savings that could be achieved over the longer term from the pooling proposals, and also the short-term costs that would be incurred in transitioning investment assets to the new arrangements. Brunel is now working well, and is delivering against the original business case (OBC).

The Gloucestershire Pension Fund has now transitioned c97% of its assets to Brunel. Our remaining assets are held in closed ended private markets funds, which will return capital over time for onward reinvestment with Brunel.

Given that we are delivering on the OBC, based on savings achieved versus transition costs incurred, our over-arching concern is that any future proposals should not result in another round of significant transition costs for our Fund.

Answers to the specific questions posed are provided below:

Question 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?

The Brunel pool is working well. 90% of client assets have now transitioned to the pool, the Gloucestershire Fund has transitioned c97% of our assets. 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.

While the pool's assets are currently below £50 billion, there would be disadvantages in expanding the size of the pool:

- Brunel largely serves a defined geographic region, the South West, providing a level of local accountability that would be reduced if the pool covered a wider area.
- The regional basis of Brunel should help with setting up local investment portfolios to promote investment in the South West, in line with the Government's levelling up agenda. An expanded pool would change investment priorities in this regard.
- Brunel was set up as a partnership of like-minded LGPS funds. The involvement of a larger number of funds may reduce the like-mindedness of the partner funds which would result in governance issues, as have been experienced by other pools.
- As stated above, the Brunel pool has largely gone through the complexity and cost of transition and is now working effectively and benefiting from the cost savings resulting from pooling. It would be unhelpful to go through another round of transition costs in order to form a larger pool, which would undermine the savings that are now being delivered.

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.

Question 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?

The Gloucestershire Pension Fund has already transitioned all of its listed assets to Brunel, our LGPS pool, well in advance of the proposed March 2025 deadline.

Question 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?

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

The Gloucestershire Pension Fund is committed to ensuring Pension Committee members are adequately trained. We already produce an annual training plan and report on the training undertaken by committee members in the Fund Annual Report. We therefore support this proposal.

Question 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?

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.

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

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

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

The Gloucestershire Pension Fund already has significant investments in UK infrastructure. In addition, the Pensions Committee has recently agreed to allocate 5% of the Fund to Social and Affordable Housing. We believe that these investments would contribute to the Government's levelling up agenda and would be happy with the requirement to set these out in a plan and report on them through the Fund's Annual Report.

The aim of the Social and Affordable housing portfolio is to invest in Gloucestershire and the wider South West, recognising that there is a need locally to level up to more prosperous areas. Where possible, we will work with Brunel on our objectives, 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 achieving the Government's agenda on levelling up.

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

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.

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

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

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

The Gloucestershire Pension Fund will be 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.

Question 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?

The Gloucestershire Pension Fund is a supporter of investing in private markets. Since January 2023, the Fund has a target allocation of 7% to infrastructure, 3% to private equity and 5% to private debt. The Pensions Committee has now agreed to an allocation of 5% to a Social & Affordable Housing portfolio, as described in the answer to question 7.

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.

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

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 Gloucestershire Pension Fund would support that.

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

The Gloucestershire Pension Fund supports setting strategic objectives for investment consultants.

Question 14 - Do you have any comments on the proposed amendment to the definition of investments?

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

Question 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.

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

Yours faithfully

Cllr Lynden Stowe

Chair, Gloucestershire Pension Fund, Pensions Committee