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## **LGPS (England and Wales): Next steps on investments**

The Clwyd Pension Fund welcomes the opportunity to respond to the consultation set out by the Department for Levelling Up, Housing & Communities (DLUHC); requesting responses to the five themes: asset pooling, levelling up, investment opportunities in private equity, improving the provision of investment consultancy services to the LGPS and updating the LGPS definition of investments.

The Clwyd Pension Fund Committee has agreed the following response in relation to the consultation. The response has been drafted from the Fund's specific point of view rather than the wider LGPS.

Although not stated in the consultation, it is understood that funds within Wales will be exempt from potential pool size limitations. Based on this understanding, the Fund is in general agreement with the main themes of the consultation such as levelling up and private equity ambition targets, as well as the general reporting requirements suggested. The Fund also notes that it is already in compliance with all of these ambitions within the consultation but has provided a view to each ambition within its response.

Yours sincerely,

*Philip Latham*

**Head of the Clwyd Pension Fund**  
**Clwyd Pension Fund**

## Consultation Questions and Answers

### 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 Fund was pleased to hear that decisions relating the Fund's investment strategy will be retained locally, continuing to allow local control and accountability.
- In regards to pooling and creating larger and fewer pools, the Fund is content with the current position of the Wales Pension Partnership (WPP) pool. The WPP has already been able to deliver significant savings for all eight constituent authorities within the WPP.
- At the time of creating a rented model in WPP, the Fund did not feel it would be sustainable to create an in-house investment management team within Wales.
- The Fund believes that the WPP has already established strong governance structures which has enabled the eight member constituent authorities to enact decisions.
- The Fund is open to collaboration with joint vehicles, which the Fund already actively pursues.

### 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 Fund notes that it has already transitioned all of its listed assets where applicable into the WPP pool. A snapshot of the Fund's current strategic allocations and explanation for not pooling has been noted below for reference.
- The Fund has committed that all new private market commitments are to be made to available sub-funds within the WPP (e.g. Infrastructure, Private Debt) where this fits with the Fund's investment strategy requirements.
- The Fund welcomes the option to explain the rationale for holding non-traditional assets outside the pool within the Fund's Investment Strategy Statement (ISS).

Manager	Mandate	Strategic Allocation 22/23 (%)	Explanation for not pooling
<b>Pooled Funds</b>		<b>32.0</b>	
WPP	Sustainable Active Equity	15.0	Already pooled
WPP	Emerging Equity	5.0	Already pooled
WPP	Multi-Asset Credit	12.0	Already pooled
<b>Non-pooled Funds</b>		<b>68.0</b>	
ManFRM	Hedge Funds	5.0	Not yet available within WPP.
Various	Best Ideas Portfolio	11.0	Tactical portfolio not yet available within WPP.
Various	Property	4.0	Not yet available within WPP.
Various	Private Equity	8.0	New commitments to be taken via WPP.
Various	Local/Impact	6.0	Not yet available within WPP.
Various	Infrastructure	8.0	New commitments to be taken via WPP.
Various	Private Credit	3.0	New commitments to be taken via WPP.
Insight	Cash and Risk Management Framework	23.0	Not yet available within WPP

### 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?**

- The Fund does not support delegating investment strategy decisions. The Fund seeks proper regulated investment advice, and foresees a conflict of interest if this is delegated to pools. For pools with several constituent authorities, this would also involve making decisions for several distinct investment strategies.
- The Fund agrees with the statement “pools should operate as a single entity which acts on behalf of and in the sole interest of the partner funds”.
- The Fund agrees with the statement that the DLUHC does not see inter-pool competition as a desirable progression.
- In respect of the statement that “pools should be actively advising funds regarding investment decisions, including investment strategies”, the Fund is concerned whether the pool is regulated to give advice. Secondly, the Fund is concerned that if the pool is regulated, a conflict of interest will arise from this set up.
- The Fund agrees that pools should be equipped to implement an investment strategy as instructed by their partner funds.
- In respect of the statement “an investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets” the Fund believes that the Committee with the help of Officers and support of appropriate advice is in the best position to set and monitor the investment strategy for the Fund. The Committee will instruct the pool to invest specific amounts in their fund range in order to achieve their desired investment strategy. The Fund would support a minimum allocation to a given asset class in order to balance diversification benefits and governance burden. The Fund agrees that it would not be appropriate for the investment strategy to specify specific underlying holdings within an asset class, and this is best left to the underlying investment managers to determine. The Fund also believes that not all risks can be efficiently managed through just a broad asset allocation given the specific nature of the Fund’s liabilities and the specific circumstances of the Fund.
- The Fund agrees that sub-funds should be limited in order to access the benefits of pooling. However, sub-funds need to continue to develop to ensure they meet individual needs of the funds, for example, responsible investment or net zero targets.
- The Fund disagrees with assertions that there is a need for fund’s to be aligning their investment strategies, however, implementation should be fully delegated to the pool, for example, if there is a concern on underlying manager the pool should be able to move quickly and decisively. The

Fund agrees with the notions of retaining local control and accountability paragraph 8 and 22, where possible.

#### 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?**

- Yes, the Fund agrees with this statement.
- The Fund has a training policy and reports against the policy within the annual report.
- The Fund would be supportive of training being delivered on a national basis to reduce cost and improve consistency across the LGPS.

#### 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?**

- The Fund is always supportive of transparency, and would comply with reporting requirements, however, the Fund would find a net savings report difficult to deliver, and does not see the value for the Fund in comparing against a national standard benchmark.
- The Fund would be supportive of an approach similar to that of the private sector, whereby a scheme return to be provided to SAB, forming the annual report as per regulations and allowing Funds to produce the annual report with fewer restrictions.

#### Question 6

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

- Yes, the Fund is supportive of the Scheme Annual Report.
- The Fund would be supportive of an approach similar to that of the private sector, whereby a scheme return is to be provided to SAB, forming the annual report as per regulations and allowing funds to produce the annual report with fewer restrictions.

### Question 7

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

- The Fund does agree that institutional pension funds can contribute to levelling up.
- The Fund believes the definition of levelling up investments is restrictive. For example, the missions appear to exclude renewable and clean energy, which is a key part of levelling up. Rather than reporting against the 12 missions which are restrictive, the Fund prefers alignments with the Sustainable Development Goals (SDGs).
- The Fund already invests in levelling up investments as defined by the Good Economy and reports against this in its Annual Report.

### Question 8

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

- The Fund agrees in principle that funds should be able to invest through their own pool in another pool's investment vehicle, however the Fund's preference is to continue to make arrangements with WPP's funds as a priority.
- The Fund is supportive of other funds investing in mandates across pools.

### Question 9

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

- Yes, the Fund agrees with this statement.
- The Fund has analysed private market commitments with the support of The Good Economy. The analysis identified that current commitments of c. £200m (c.9% of total Fund assets) were invested in line with levelling up.
- The Fund will continue to commit to UK place based opportunities as they arise, and are an appropriate fit for the Fund's investment strategy requirements.

### Question 10

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

- Yes, the Fund supports reporting. We already report on an annual basis, but do so based on commitments as well as the current invested capital.

### 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 Fund believes investment strategy decisions should not be mandated centrally by Government. As previously stated the Fund supports local control and accountability.
- The Fund already has what it considers to be a “diversified but ambitious investment portfolio” with a c.29% strategic allocation to private market mandates, within this 8% is strategically allocated to private equity, and a 6% strategic allocation to the local / impact portfolio.
- The Fund would prefer that the definition be changed from private equity to private markets. For example, 40% of the Fund’s private market holdings are sterling based investments. 77% of impact/ place based investments are based in the UK.
- The Fund believes the barriers to investment in growth equity and venture capital within LGPS is the level of risk, on which the Fund has taken regulated advice, and the cost of investment with underlying managers.

### Question 12

#### Do you agree that LGPS should be supported to collaborate with the British Business Bank (BBB) and to capitalise on the Bank’s expertise?

- The Fund is already in discussion with the BBB and is open to collaborate. The Fund would undertake due diligence to ensure that such investment through the BBB is suitable for the Fund’s investment strategy.

### Question 13

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

- Yes, the Fund agrees with the proposal and is already in compliance with the order.

### Question 14

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

- Yes, the Fund agrees with the proposed amendment to the definition of investments.

### 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.**

- No, the Fund does not consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals.

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