DLUHC Consultation on LGPS: Next steps on investments
Appendix 1 – Draft DLUHC Consultation Response

Q1 – 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?

Fund Response:

- 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.
- Pool size - In regards to larger and fewer pools, the Fund is content with the current position of the pool, for reasons previously stated (insert). The WPP has already been able to deliver significant savings for all 8 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 in Wales.
- Governance – WPP has established strong governance structures with the Pool which have enabled all constituent authorities to enact decisions. (Support wording with WPP response).
- The Fund is open to collaboration with joint vehicles, which the Fund already actively pursues with the current set up.
- The Fund supports the main ideas of the WPP response, which are (insert).
- The Fund agrees with the WPP's response which is (insert).

Q2 – 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?

Fund Response:

- The Fund has already transitioned all listed assets into the pool.
- New private market commitments from 1 April 2023 are being made to available sub-funds within the WPP (infrastructure, private debt) where this fits with the Fund's investment strategy requirements.
- We welcome explaining the reasoning for holding non-traditional assets outside the pool within the Fund's ISS.
- The Fund welcomes the opportunity to explain within the Fund's ISS and the reasons why holdings have not been pooled as this supports transparency.
- The Fund supports the WPP's response (insert).

Manager	Mandate	Strategic Allocation 22/23 (%)	Explanation for not pooling
Pooled Funds		**32.0**	
WPP	Sustainable Active Equity	15.0	Already pooled
WPP	Emerging Equity	5.0	Already pooled
WPP	Multi-Asset Credit	12.0	Already pooled
Non-pooled Funds		**68.0**	
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	CRMF	23.0	Not yet available within WPP

Q3 - 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?

Fund Response:

- Delegated strategy decisions – 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.

- ***"Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds."***
    - The Fund agrees with this statement.
- ***"For this reason, we do not see inter-pool competition as a desirable progression."***
    - The Fund agrees with this statement.
- ***"This does not preclude the potential for inter-pool collaboration, which is encouraged by government***."
    - (Take view from WPP)
- ***"Pools should be actively advising funds regarding investment decisions, including investment strategies."***
    - The Fund is concerned on whether the pool is regulated to give advice. Secondly, if the pool is regulated the conflict of interest that arises from this set up.
- ***"Pools should be equipped to implement an investment strategy as instructed by their partner fund."***
    - The Fund agrees with this 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 taking 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.
- ***"Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling."***
    - 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.
- ***"Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund."***
    - The Fund disagrees with assertions that there is a need for funds within a pool to be aligning their investment strategies, however, implementation should be fully delegated to the pool, for example, if there is a concern regarding an 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.

Q4 - Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Fund Response:

- The Fund has a training policy and report 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.

Q5 - 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?

Fund Response:

- 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 would be provided to SAB to meet regulations and allowing Funds to produce the annual report with fewer restrictions.

Q6 - Do you agree with the proposals for the Scheme Annual Report?

Fund Response:

- The Fund is supportive of the Scheme Annual Report.
- As above - the Fund would be supportive of an approach similar to that of the private sector, whereby a scheme return to be provided to SAB to meet regulations while allowing funds to produce their annual report with fewer restrictions.

Q7 – Do you agree with the proposed definition of levelling up investments?

Fund Response:

- 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 would prefer alignment 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.

Q8 – Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Fund Response:

- The Fund agrees in principle, however the Fund's preference is to continue to make arrangements with WPP as a priority.
- The Fund is supportive of other funds investing in mandates across pools.

Q9 – Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Fund Response:

- 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, where these are an appropriate fit for the Fund's investment strategy requirements.

Q10 – Do you agree with the proposed reporting requirements on levelling up investments?

Fund Response:

- The Fund supports reporting and already does so on an annual basis, but does this based on commitments as well as the current invested capital.

Q11 – 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?

Fund Response:

- The Fund believes investment strategy decisions shouldn't be mandated centrally. 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 which 8% is strategically allocated to private equity, and private equity is included within the 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, and 77% of the Fund's impact/ place-based investments are based in the UK.
- Barriers – The barrier is the level of risk, on which the Fund has taken regulated advice, and the cost of investment with underlying managers.

Q12 – Do you agree that LGPS should be supported to collaborate with the British Business Bank (BBB) and to capitalise on the Bank's expertise?

Fund Response:

- Fund Officers are already in discussion with the BBB with the view of the Fund being open to collaboration. The Fund would undertake due diligence to ensure that such investment through the BBB is suitable for the Fund's investment strategy.

Q13 – Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Fund Response:

- The Fund agrees with the proposal and is already in compliance with the Order.

Q14 – Do you agree with the proposed amendment to the definition of investments?

Fund Response:

- Fund agrees with the proposed amendment.

Q15 – 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.

Fund Response:

- No.