Northern LGPS
Greater Manchester, Merseyside and West Yorkshire
Pension Funds working together

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2 October 2023

Dear Minister,

CONSULATATION RESPONSE
Local Government Pension Scheme (England and Wales): Next steps on investments

Further to your consultation document published 11 July 2023, please find below the views of the Northern LGPS.

Firstly, we would like to reiterate once again that Northern LGPS is, and has always been, very supportive of the objectives set out in the November 2015 Investment Reform Criteria and Guidance (the '2015 Guidance') and we believe Government and LGPS pension committees deserve great credit in delivering these objectives.

Whilst many challenges remain, the LGPS is arguably in its healthiest funding position in recent memory and employer contribution rates have generally been falling and compare very favourably against other defined benefit schemes. Much of this improvement can be attributed to rises in global interest rates and strong global equity markets. However, the focus on value for money and improved governance, which was brought about by the initial pooling reforms and introduction of the 2015 Guidance, has almost certainly had a positive impact and must remain the focus.

The 2015 Guidance set out a broad framework, which would help all LGPS funds achieve the economies of scale and opportunities available to the larger LGPS funds, such as those that have developed the Northern LGPS, where each of the Funds in the Pool is of significant size in its own right.

In the absence of any evidence led policy we would suggest that the success of a pool in practice is built more on alignment of strategies and underlying approach to investment, rather than of total AUM.

The picture drawn in the consultation is of a quite top-down structure: with the Secretary of State potentially giving directions, pools having ownership of most decisions and partner funds left with quite residual functions. We believe that perspective needs to be altered to a more collaborative model, which has proved successful in practice and demonstrated by the Northern LGPS. In

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this approach, funds are recognised as having a strong and active role in the governance of pools. They are able to hold the pool, its Board and executives to account and there is an important role for member representatives in that too.

Accordingly, we believe that the Department should recognise that there also needs to be consideration of the number and size of partner funds who participate in a pool, as well as the total AUM. We would recommend on our experience that there needs to be a manageable number of funds participating in order to effectively set a common direction and secure the benefits of a harmonised approach. It is accepted that funds may legitimately have their own investment philosophy, then that needs to be respected and progress achieved by consent.

Of course, alignment of investment approaches requires building relationships of trust between partner funds and with the pool - which is why governance is key. Governance works best when partner funds are engaged and pro-active owners of pools and over time develop those relationships of trust.

Since the initial statutory initiatives to introduce pooling (the Investment Regulations and associated 2015 Investment Reform Criteria and Guidance) complex contractual arrangements between authorities for pooling have been established. The reason why different pooling models exist (which the Consultation acknowledges all have their own benefits and merits) is that the Government wisely did not impose a model for pooling upon authorities in 2015. Neither it nor the authorities could be certain of how an appropriate governance structure would evolve.

We note that the Consultation refers generically to "pools" without distinguishing between the models. In general, the Consultation uses the term "pool" to mean the FCA regulated operators of collective investment schemes established by those authorities under shareholder agreements where the pool operator company is under common ownership.

Although we have no criticism of such a model, this is not the legal structure used by all pools and in particular Northern LGPS, as not been efficient and effective for our situation as we have previously explained at length to the last consultation. In particular we received advice that an FCA regulated company would increase Northern LGPS' costs by approximately £10 to £15millionper annum, which we would not be able to recover over the short or medium term or through any efficiencies as a consequence in fact it would add an unnecessary burden.

To promote only one definition of what a "pool" should look like does not acknowledge the alternative model of a joint committee as a recognised governance vehicle under the Local Government Act 1972. The inference in referring only to the former type of "operator" is that no account is taken of the validity of the latter model. In fact, most of the pools which have established their own pool operator companies also have in place a joint committee structure to provide oversight and answerability at a local government level. One of the other features of the Consultation is Government's attempt to define, for the first time, what is and what is not a "pooled asset". By denigrating the status of assets that are (to use the Consultation's terminology) merely "under pool management", as opposed to being co-owned, the Government has both overstated the capacity of the pool operators to compete with third party private sector service providers and under-estimated the cost of replacing current arrangements which are providing all stakeholders with value for money.

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Prior to Government's announcement of its pooling objectives in 2015, the Northern LGPS funds were already well progressed along the collaboration journey. The Pool's direct infrastructure investment vehicle GLIL and the Invest 4 Growth initiative – all predate pooling. Since the 2019 informal consultation was issued we have further expanded GLIL, including outside investment from NEST. The Invest 4 Growth initiative has expanded significantly to include a wide range of investments that meet the Government's more recent Levelling Up agenda. We would argue that Northern LGPS' progress far exceeds Government's realistic expectations.

Whilst the Northern LGPS funds are three of the largest pension funds in the UK, following the release of the 2015 Guidance each of the funds acknowledged that there were still asset classes where we could increase scale and resources and lower costs in order to improve net investment returns. The most compelling case was for private equity and the Northern LGPS established the Northern Private Equity Pool ('NPEP') to make collective private equity investments. To date £2.8 billion of fund commitments have been made. Over the last four years, the Northern LGPS' implementation approach for investment in private equity has become more direct and lower cost with the development of a co-investment programme, generating significant savings.

Throughout the pooling process Northern LGPS has undertaken annual performance and cost benchmarking against global comparators using the CEM Benchmarking service. The most recent report covering the year ending 31 March 2022 indicates that the Northern LGPS has costs, which are materially below the global peer group average (both before and after controlling for differences in asset allocation).

We have been clear with Government throughout this process that the Northern LGPS' mandates for listed assets are already at scale (two pool mandates are in excess of £10bn each) and based on each Fund's current asset allocation, no further material synergies are available.

The November 2015 guidance was clear that it was up to administering authorities to work together to develop pooling arrangements, which would enable each of them to meet the outcome based criteria set by Government.

Whilst we are less concerned with the proposals being consulted upon now compared to the 2019 consultation on draft pooling guidance, we still believe it is imperative not to focus on an overly prescriptive approach to pooling and to not lose sight of the desired outcomes (i.e. improved value for money, governance and supporting UK economic growth).

As DLUHC will know, LGPS funds vary widely in respect of a number of different factors including size, level of internal resources, employer base and liability profile, funding level, governance arrangements and responsible investment beliefs. Given these differences we strongly believe that:

a) administering authorities are best placed to determine via their own governance arrangements which pooling approach works best for their fund;

b) mandating a one-size fits all approach will not deliver the best outcomes and potentially cuts across administering authorities' fiduciary duty to effectively manage their fund.

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We do not feel there is clear evidence of one single approach being better than the rest. There are strong benefits to different approaches that we feel need to be preserved.

In several areas this consultation signals that further detail will be set out in forthcoming guidance and this guidance feels like it will be key for the successful progression of the Government's pooling agenda to the benefit of LGPS funds and their stakeholders. We would be interested to know who will be preparing this guidance and who they will be liaising with during this exercise.

We agree that pooling should be completed as quickly and extensively as possible, where it is achieving clear benefits for funds, however the general feel of these proposals is that they are a collection of measures designed to help pools prosper.

Clearly this should in turn deliver benefits for LGPS funds; but speaking on behalf of a LGPS fund it would have been reassuring to see some references in the consultation to LGPS members, employers and local taxpayers who are ultimately funding the Scheme and will suffer the consequences of any future underperformance.

In the context of the consultation, there is an issue in defining what is meant by "excellent VFM". The long-standing starting point is around net return and risk. It is very surprising that there is no impact assessment of the costs of these proposals. Since the proposals (in particular in relation to governance models and the way that authorities access passive investment strategies) would, if implemented, result in significant disturbance of existing contractual relationships between many of the LGPS authorities and third party service providers, it is very odd that no cost-benefit analysis has been provided.

Currently it seems focused on the needs of the pools who for all intense and purposes are fund managers and therefore have significant conflicts of interests. For example, there is no acknowledgement that some LGPS funds may wish to operate different investment strategies for certain groups of employers that have a lower risk tolerance.

We sincerely hope these significant stakeholders are represented in the process for drafting guidance.

To conclude, we would once again like to reiterate the Northern LGPS' support for the original objectives of the 2015 guidance. We are also supportive of the Government's more recently stated desire to see LGPS assets support the UK and feel we have a very strong track record in this regard.

However, we sincerely hope that Government also listens to our concerns and that any future guidance is drafted in such a way that builds on the strength of progress to date.

The LGPS has performed well, is fully funded, and open to new members. In short, the LGPS should be seen as a success story and as such reform should be carefully considered so as not to undermine its track record of providing pensions to beneficiaries in retirement in a sustainable and affordable manner.

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Consequently, we totally agree with the sentiments expressed recently in the Ministers speech at Room151's Local Authority Treasurers' Investment Forum and Finance Directors' Summit, and in particular: "***local government needs to be squeaky clean about the use of taxpayers' resources, with an endless focus on efficiencies***" and ": '***I need local government to be squeaky clean with money and not experiment'"***. We believe this is even more pertinent when dealing with the deferred pay of employees who have a pension promise underwritten by public sector employers and taxpayers.

As a general background point to the Consultation, the R v Secretary of State for Housing, Communities and Local Government [2020] UKSC 16 case ("Palestine") clearly delineated the principles applicable to the ownership of the assets of the LGPS and thereby the limits under statute on central Government intervention in the discharge of those statutory functions by authorities. It confirmed that under current legislation, Government may tell authorities "how" they may invest their funds, but not "what" to invest in (see Lord Wilson's leading judgment and paragraph 31). As Lord Wilson also stated, LGPS assets are "not public money", i.e. they do not belong to Government. This is a vital point, especially in relation to the levelling up and private equity proposals that the Consultation appears to ignore.

The other significant point about Palestine that cannot be ignored is that the reason the Government lost in the Supreme Court was that it had attempted to use its statutory powers for a purpose for which they were not given. In particular, the regulatory footing on which the levelling up programme is based is concerned not with delivering pensions to LGPS members but with wider economic policy.

In order therefore for Government to "require funds to have a plan to invest up to 5% of assets to support levelling up", Government would have to change the Investment Regulations rather than implementing that aim through statutory guidance. Changing those regulations to impose an asset allocation at any level (whether minimum or maximum) would mean undoing the regulatory reforms that the Government committed to in 2015 and would reverse the position under the current Investment Regulations where prudential principles apply to authorities in their role as fiduciaries (which is accepted by the Government in paragraph 65).

We have a credible history and are very open to investing in place-based initiatives where particular projects can be demonstrated to be consistent with each of the fund's fiduciary duty and appetite for risk, we have previously commented that LGPS funds cannot be required to invest simply to support Government policy or provide loans on favourable terms for projects supported by Government..

We look forward to receiving details of further developments.

Please do not hesitate to contact us in the meantime if you require any clarification or would like to discuss any aspect of this response.

Yours sincerely,

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Cllr Gerald P Cooney
Chair Northern LGPS

Chapter 2: Asset pooling in the LGPS

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?

In establishing the 8 LGPS investment pools, LGPS funds have taken account of the criteria set out by Government in the 2015 pooling consultation and developed pool structures that accord with their investment philosophies and beliefs. Considerable progress has been made since 2015 which is recognised in this consultation.

Since the concept of asset pooling was introduced, all LGPS funds in England and Wales have had to focus on whether their investment management arrangements are providing value for money and whether their fund would benefit from further collaboration.

For the larger LGPS funds, that were at scale in public markets, were generally already well resourced and capable of investing directly in private markets, we would argue that it is the focus on value for money and collaboration by LGPS fund committees that has brought about the benefits and not the application of any specific pooling model. Government have acknowledged in this consultation (paragraph 31) that each pooling model has its own benefits.

In addition, one of the benefits of the pooling initiative in general terms is that it effectively forced commercial asset managers to treat LGPS funds and pools as equivalent and that brought down fees for everyone, whether they had started to transition into a pool or not at that time and largely irrespective of pooling model.

We agree that pooling should be completed as quickly and extensively as possible, where it's achieving clear benefits for funds. However, in the case of the Northern LGPS funds, a prescriptive approach to pooling could have the effect of increasing costs without a commensurate level of financial benefit. We support Government's ambition for greater collaboration and joint working between pools and the potential to grow in-house investment management. Indeed, recent research by CEM identifies that cost savings are driven more by implementation model than scale although both have a part to play.

Whilst we acknowledge that increased scale is likely to reduce costs up to a point (which will vary by asset class), we are doubtful that the benefits of pool merger would compensate for the costs and disruption that would be involved in the merger process. We are also of the view that, as the number of investors/shareholders in a pool increases (as it would following a merger), it becomes increasingly difficult for an individual investor/shareholder to hold the pool to account. We therefore see pools being encouraged to work together as likely to generate better outcomes

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than pool merger. It's interesting to note that some smaller pools have achieved excellent results from pooling, so absolute size is not a guarantee of better outcomes.

We are also concerned by some of the language in the consultation, in particular paragraph 12. Whilst pooling models differ, it is clear that the pools exist solely to invest assets on behalf of, and under instruction from, the LGPS funds. References in the consultation to pools 'securing' the assets of the partner funds seem to misunderstand the purpose and role of pools. Arguably, the concept of a pool 'owning' a fund's assets implies sequestration of assets and cuts across a fund's fiduciary duty.

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?

Progress to date suggests that, in the main, LGPS funds have been transitioning assets to pools as and when pools implement asset mandates that fulfil LGPS funds' requirements. In this context, a deadline could be a blunt instrument and result in suboptimal investment decisions being implemented. As recognised in the draft guidance (section 19), it is important, therefore, that any deadline should recognise this and the need for pools to provide asset strategies that accord with LGPS funds' investment requirements. There is a fundamental fiduciary point, which each authority would need to satisfy itself on before making any required transition.

Furthermore, if pools demonstrate good performance in terms of costs and investment returns, administering authorities will not need any requirement to transfer assets. Not to take advantage of pools outperforming would be open to challenge by those the administering authority represents.

In addition, the process for establishing an evidence-based date for further and full transitioning of assets may benefit from an independent assessment of the pooling process to date, covering issues around the process itself, performance data, and analysis of the varying investment strategies and their performance.

While the focus of the consultation is on further pooling, it is also important at this stage that the department consider what happens if a pool is not performing as might be hoped. Developing an accepted approach that enables funds to take appropriate action to protect their assets would appear prudent and could benefit both funds and pools alike. Such an approach would require a comprehensive monitoring and reporting framework which includes hard factual data that can be measured against other investment managers, model funds and index return on a quarterly basis (which forms part of later questions). The approach would also need to consider ways to protect asset owners whilst allowing time for a pool to respond and address the performance issues. As we are dealing with publicly held funds and to address the issues above, there should be bias towards public reporting in favour of treating issues as confidential.

The target for these measures is likely to be those funds that Government sees as unnecessarily keeping assets outside of their pools. In reality, assets may be held outside for sensible reasons. For example, it could be uneconomic for the pool to offer a solution that meets funds' specific requirements. We believe flexibility is needed here, which could improve pooling outcomes. Further guidance from Government on the degree of flexibility funds will have, and

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on the obligations of pools to offer solutions whatever the cost, would be helpful.

Also relating to paragraph 19, we think the requirement for "a detailed rationale for each asset remaining outside the pool" should instead refer to an "asset class" or "asset mandate". The current wording implies that a rationale would be required for each security or legacy private market holding, which would be a very time consuming and expensive exercise.

The commentary in paragraph 9 of the Consultation which seeks to differentiate between "pooled assets" and "assets under pool management" raises an issue not simply in relation to listed assets (and therefore to the timetable for transition) but also creates a false dichotomy, which needs to be addressed. Paragraphs 9 to 12 and paragraph 39 suggest that the Government does not regard assets as "pooled" if they are merely "assets under pool management". The corollary of this is that "pooled" actually means "co-owned" as a legal matter.

Assets held under pool management would include in particular the passively managed listed assets across the majority of the pools which are legally owned under insurance contracts by the providers of those contracts. By excluding such passively managed assets, the Government has created an artificial rationale for driving further pooling with the suggestion that internal management of passively managed assets could be achieved at a lower cost (see paragraph 11). The economic evidence would suggest the contrary. It is universally recognised that the most efficient managers of passive portfolios do so because of their very scale, which enables them to replicate the relevant index with the most accuracy and thus reduce the tracking error which would otherwise be inherent in a sub-scale portfolio.

Leaving aside the fact that it is not the Government's place to determine whether assets should be actively or passively managed the choice of externally managed passive portfolios remains a rational and empirically justifiable solution for all authorities who have chosen that path. We therefore strongly disagree with this aspect of the recommendations in this part of the Consultation document.

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?

No.

We broadly support the characteristics described in the consultation as key to progress, however we strongly believe that Government needs to allow flexibility for funds and pools to implement arrangements that work for each LGPS fund. A one-size fits all approach will not deliver the best outcomes and potentially cuts across administering authorities' fiduciary duty to effectively manage their fund.

Government wisely did not mandate a model for pooling in 2015. That principle still holds good today and it would be inappropriate to promote a single model of pooling which would inevitably require a preference to be expressed for a particular structure. The characteristics which the Consultation seems to promote as being essential to a desired or favoured model of pooling

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appear to lean strongly towards a corporate vehicle which is owned by the authorities (cf. "pools should operate as a single entity" paragraph 31). Government should bear in mind that the costs of establishment of the owned pool operating companies significantly outweigh the costs incurred by pools which have not established a corporate entity, but have instead procured services across the authorities within their pools.

We also have concerns regarding pools being encouraged to advise funds regarding investment decisions and strategies (see also our response to Q13). Combining strategy advice and implementation or, in other words, replicating the traditional fiduciary manager model, is known to create conflicts of interest. Whilst it is unlikely to be an issue in practice for the funds in the Northern LGPS Pool, where each of the funds has significant internal capacity and capability to advise on investment decisions and strategies, there is a risk that pools could advise funds to do what is expedient for the pool rather than what may be in each funds' best interests. This could be especially problematic if guidance is clear that funds cannot invest directly in other pools (see our response to Q8) and there are few, if any, assets classes exempt from pooling.

For example, pools may be incentivised to develop easier-to-run, simplified solutions that do not fully reflect each member funds' specific needs. Similarly, assets may be directed towards solutions where the pool is trying to build scale, rather than the optimal strategies for each member fund. Member funds would not fully benefit from the protections recommended by the CMA in its 2019 review. The proposal would also increase concentration risk by increasing the influence of pools on ultimate investment outcomes.

As mentioned earlier, we also have doubts regarding the ability of funds to make changes to their pool if they are not satisfied with how it is operating (which could include the advice it is providing to funds). An individual fund may well be able to exert influence in a pool with a small number of partners, but in a pool with a large number of partners we think it would be very difficult for any individual fund to make its voice heard.

In view of the potential conflicts of interest, we believe it should be made clear that pools should not be the sole source of advice for funds regarding investment decisions and, in particular, investment strategy.

Attempting to revise the existing statutory guidance, which contains good and measured approaches to governance, should be approached with care, especially in a context where there is no overriding legal reason to promote one model above others.

The Consultation acknowledges in paragraph 29 that most of the investment return achieved by any institutional investor comes from asset allocation, not manager selection. It also acknowledges that setting investment strategy and asset allocation is "a central responsibility for administering authorities" (paragraph 29). There therefore seems to be a contradiction between the model of increased delegation to pool operator companies promoted in paragraph 31 and this statement.

The statement in paragraph 25 that "the pool partnerships which have a higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the

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conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey", needs to be scrutinised closely given the Consultation no detailed cost-benefit analysis of its proposals.

Having "conditions in place" is not the same as evidencing the delivery of enhanced net performance.

Another disadvantage to the promotion of the fiduciary management model in a built pool where the authorities own the operator is the scope for conflicts of interest.

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?

This would be helpful. Elected members will need to acquire and maintain a broad understanding of the LGPS, where to seek expert advice and how to hold pools and advisors to account. LGPS administration is the responsibility of local councils and is managed through committees or panels which bring together elected members, fund officers and their advisors. Critical to the success of the arrangements are the skills and knowledge the members and their advisors bring to the process. All parties need specific skills and knowledge. LGPS members are not expected to be technical experts, but to have an understanding of how to manage advisors and investment managers.

It is important that training is focussed on the right areas. Investment training needs to ensure trustees can ask sensible questions of the pool, their investment consultant, and other stakeholders.

The Good Governance in the LGPS review opines helpfully on this area noting that respondents believed that requirements for Committee should be on a par with Local Pension Boards. We would hope that recommendations from the Scheme Advisory Board in relation to the Good Governance review, which include this important area of training and development, are put in place.

It is important that through the pooling process, including proposals within the consultation, that the role of individual funds are maintained, and that involvement of members and officers are encouraged.

To improve performance and deliver potential benefits of scale, issues around complexity of asset manager structures is an important area for consideration. This will help with costs, clarity on roles and tasks and responsibilities at pool level. It will also support transparency around operations and decision making. LGPS funds are reliant on lay trustees who have served pension funds well. For lay trustees to undertake their tasks they need the support of officers. Funds should ensure adequate resource for supporting trustees in an increasingly complex investment environment.

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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

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consistent benchmark, and if so how should this requirement operate?

We support the reporting proposals. Northern LGPS funds have reported their assets on this basis for a number of years in their annual reports. The area of greatest challenge is achieving a consensus on the reporting of net returns against a consistent set of benchmark indices. There are many hurdles, some of the main ones being:

1. Reporting net returns does not provide context on the risk taken.
2. Globally, there are more benchmarks than assets which makes benchmark selection difficult.
3. There are a number of valid approaches to the benchmarking of unlisted assets.
4. Benchmark providers charge for the provision of benchmark data so any proposal should not have the effect of LGPS funds incurring additional costs.

That being said, the Northern LGPS Joint Committee receives quarterly reports of the combined performance of the partner funds by asset class. This has involved some compromise in terms of benchmarks but is achievable. Should reporting pension funds feel the standard performance benchmark was inappropriate, this could be addressed in the narrative of their report.

This requirement could be seen as analogous to the current arrangements for the calculation of funding position against standard actuarial assumptions.

Funds would be able to operationalise this requirement through support of third parties. For example, PIRC delivers a Local Authority Pension Performance Analytics (LAPPA) service, which measures the performance of the 63 participating LGPS funds against the aggregate return of the group. Funds can then review the impact of their strategy on both the return delivered and risk profile. The funds can also review asset class performance against their peers. This is done over the latest year and longer term with total asset and peer group comparators available for the last 35 years. CEM Benchmarking could also be a useful operating partner, having devoted significant resource to considering the issue of reporting performance on a consistent basis. For example, they have developed a methodology for standardising performance measurement of Private Equity.

However, we do take issue with the inference of paragraph 39, which appears to be a "back door" way of influencing the governance choices which have been made to date by authorities about the structure which is right for them and for their funds (but which may not be right for other authorities) would be inappropriate, especially under the guise of apparently improved reporting.

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

We agree with the reporting requirements. With the variety of reports that LGPS funds are required to make, we would support a new single standard set of data designed in such a way that it can be used by funds to fulfil all their different current obligations.

GMPF has for many years disaggregated its pooled investment vehicles disclosed within its Net Asset Statement into the underlying 'traditional' asset classes. This has enabled the Fund to

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disclose a more meaningful 'portfolio distribution' chart within its Annual Report. We appreciate that this issue has been exacerbated by pooling and endorse the proposed approach.

The proposals would provide transparency around asset allocation and performance. However, to do so it should be meaningful to the interested parties and be a key element in holding all those involved in the investment process to account for their performance.

Chapter 3: LGPS investments and levelling up

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

The proposed definition provides helpful clarity and is suitably broad based and inclusive. We would suggest that the definition is kept under review as this area of investing evolves, to ensure that it remains relevant.

It is important to note that LGPS funds and pools are already contributing to the UK economy and local economies across the country. This investment is sometimes underplayed and the barriers to supporting further investment overlooked. Such barriers include the lack of investable propositions to support local growth and reduce spatial inequalities and is an area where government investment would be needed to crowd in private finance. The contribution being made comes not only through illiquid assets but includes investment in the UK through the public markets. Many of the listed companies the LGPS is invested in will be supporting aspects of the 12 levelling up missions, including investment in training and R&D and providing jobs to support improved living standards.

A recent ONS[1] study suggests that public sector pensions' equity holdings are now more than those of the whole UK private DB and DC schemes combined. It is unclear in the consultation how such major investments are accounted for and whether the preference here is for investment in illiquid assets over investment in, for example, the FTSE and FTSE companies (something which other parts of the Edinburgh reforms are seeking to bring about). The 12 missions are quite broad and open to interpretation - pride in place, living standards, wellbeing, crime and local leadership. Presumably any investment in an area will have some impact on jobs and growth and therefore living standards. Equally it is not clear what is meant by local. Presumably any investment within the UK, even with complex supply chains, will support a local economy. It is also not apparent how investing anywhere in the UK would narrow spatial disparities and could well widen them. As such, any direct investment located in the UK could be described as supporting levelling up.

As some of the most supportive funds to local place based investing, we have previously commented that LGPS funds cannot invest simply to support Government policy or provide loans on favourable terms for projects supported by Government.

We are very open to investing in place-based initiatives where particular projects can be demonstrated to be consistent with the fund's fiduciary duty and appetite for risk. We have a

[1] ONS, Funded occupational pension schemes in the UK, June 2023

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deep understanding about how our local economy works, but the key barriers are scale and supply of opportunities: we would like to see a deeper consideration by Government of what can be done collectively to address those.

We note that the consultation says that the LGPS "can play a key role in building a pipeline of investable UK opportunities without costly deal by deal auctions". While LGPS funds should be consulted on what the pipeline is for and who the potential customers of that pipeline are, we do not believe that it would be for the LGPS to construct it. That is clearly a job for a Central Government agency (or a body nominated to act on its behalf).

We believe that Central Government absolutely needs to take a more active role in this space and could do so by setting out a clearer and more activist industrial strategy, or make a comparable offer to support transition to a net zero world such as those offered in other jurisdictions (like the significant funding commitments announced by the US and EU).

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

Collaboration between and within LGPS pools and funds is already common particularly in private markets and delivers fee savings by, for example, collective negotiation with an external investment manager to provide a lower fee LGPS share class which is available to all LGPS investors. Collaboration brings benefits of scale, resource and helps reduce the potential for conflicts of interest in relation to local investments.

We agree that funds should be able to invest in another pool's investment vehicle. The requirement for this to be done through their own pool is almost certain to cause funds to incur an additional layer of fees. This is inimical to the original Pooling intention which was to reduce costs, move away from fund of funds and deliver fee savings. Taking account of proposals in question 3, consideration should be given to ways in which this can be achieved most cost effectively. It is difficult to see why there should be an objection to a pension fund investing directly in another pool's investment vehicle provided it has first consulted with its pool company. The final decision should lie with the pension fund.

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

We have no issue with authorities stating what their policy on levelling up is if the proposal can be legitimately included within statutory guidance (noting our comments on the implications of the Palestine case). However, we strongly reject the proposal that funds should be directed in revised Regulations to invest up to 5% of their assets in local investments.

That said Northern LGPS already exceeds the proposed 5% invested in levelling up assets. Northern LGPS funds have invested significant amounts in levelling up investments because it is consistent with our investment strategies, and we do not see this changing in the foreseeable future. Notwithstanding this, the recognition in the consultation of fiduciary duty as underpinning any investment decision is important and the appropriateness of an allocation to levelling up assets will be a decision for each LGPS fund.

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In our experience, most levelling up investments are through private market structures/vehicles. Hence, when calculations are undertaken, undrawn commitments and contingent liabilities as well as capital at work, are important considerations and should be included in the reporting of progress in a levelling up plan.

Overall, this requirement seems fundamental to ensuring greater public scrutiny of such plans and a common reporting format would seem to be required. That common format would need to include clear definitions around levelling up and locality to ensure comparability.

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

Yes. Although this will be an additional demand on fund resources, in our opinion, a considerable amount of 'levelling up' investment has occurred within the LGPS which is not necessarily recognised and this could be improved by reporting the extent to which levelling up investment is taking place.

The Northern LGPS continues to strive to implement best practice. In this context, GMPF, as one of the Northern LGPS funds, recently undertook a first of its kind exercise, by working with the Good Economy, a respected Impact Advisor, to measure the outputs of its Impact and Local Investments. You can find the report here: Place-Based-Impact-of-GMPF-Local-Investment-Portfolios-Sept-2023.pdf We would be delighted to share our findings in order to help progress our mutual aims in this area.

Chapter 4: Investment opportunities in private equity

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?

No - Investment in private equity should be based on the needs of the specific fund rather than a one-size-fits-all target or ambition. Authorities must be free to discharge their fiduciary duties without being directed by Government (as explained in Palestine Case).

Currently, Northern LGPS has around 8% of its assets in a broadly diversified portfolio of private equity investments. This allocation has arisen from Northern LGPS' assessment of opportunities in private markets as part of the underlying Funds' strategic allocation design, based on appetite for risk and return. This is typically best practice across private and public pension funds. Strategic allocations are reviewed periodically, and for some LGPS funds, investments in these assets will make more sense than for others. Due to this, and the fact that suggesting a specific target allocation will impinge upon pension funds' fiduciary duty, Northern LGPS does not agree that an 'ambition' target should be set. Indeed, based on our experience, we suggest the emphasis should be on growth capital in private markets as a whole, instead of private equity alone. Having a focus on 'private capital' allows pension funds to build private market portfolios which suit their own circumstances, rather than limiting options to a more narrowly defined and therefore potentially crowded part of the market with greater volatility.

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Private equity is inherently more risky than quoted equity and is also more illiquid. It only makes sense for funds to allocate to the area if they are confident that the risk premium will be delivered. Being forced buyers of potentially low-quality investments is not something trustees should be comfortable doing within their fiduciary duty.

To stimulate interest in UK-centric venture and growth equity, we would encourage the government to consider ways in which potential opportunities in growth equity can be made more appealing to investors by incentives such as the provision of first-loss capital or grant funding to encourage further investment in this area.

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?

We agree that the British Business Bank is well placed to collaborate with the LGPS. BBB could potentially provide the incentives to invest in UK-centric growth and venture investments that we set out in our response to Question 11.

The Northern LGPS has invested alongside the BBB in the past, however, we do not believe that BBB should be an exclusive or mandated partner. Consequently, we see no reason to prevent authorities or pool operators from engaging with the BBB if they wish to do so as we have done. We therefore do not understand the reference in paragraph 90 that suggests that there are barriers in legislation that need to be overcome.

Where funds and pools, such as Northern LGPS, have already developed capacity and capability to invest in these areas, a collaboration with the BBB that introduced an unnecessary level of additional fees should be avoided.

We would be happy to work with the BBB to develop suitable proposals.

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

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

With regard to the consultation's reference to pools providing investment advice to LGPS funds, it is for LGPS funds to determine from whom they receive investment advice. However, from a governance perspective, we would argue that independent advice, scrutiny and oversight of the investment decisions taken by the pool is essential. In view of the proposals in Question 3, it would seem appropriate that LGPS pool companies should also be accountable against objectives.

Whilst it is unlikely to be an issue in practice for the Northern LGPS Pool and its partner funds, our instincts are that there may well be a tendency for pools to advise funds to make investment strategy changes, which are expedient for the pool rather than what may be in the funds' best interests. This could be especially problematic if the proposed statutory guidance is very clear that funds cannot invest directly in other pools and there are few, if any, exemptions from pooling (see response to Q3 above).

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Once again we also question the ability of funds to make changes to their pool if they do not support how it is operating (including the advice it is providing to funds), particularly if there are a significant number of partner funds.

Whilst we note the summary of the implications of the CMA Order set out in the consultation document and do not seek to question DLUHC's interpretation of this, it feels back-to-front that pools are not subject to the order, but investment consultants are in scope. As noted in the consultation document, the primary purpose of the order being brought in was to reduce conflicts of interest in the fiduciary management industry – in our opinion the pools (who under these proposals are funds' only available investment manager) appear to closely resemble fiduciary managers and seem to have much more scope for potential conflict in their advice than the LGPS investment consultants do, particularly if pools are advising their own investors on strategy!

Accordingly, we see no justification for continuing the exemption for pool operating companies. There is an important difference between permitting authorities to avoid the need for retendering fiduciary management contracts (if that is what they have entered into with wholly owned pool operators) and the enhanced governance goal of setting investment objectives and measuring consultants against how they deliver on those objectives. The case is all the stronger in a public sector scheme like the LGPS and where the pool operators are only regulated by the Financial Conduct Authority and not directly answerable to Government.

We support the proposal not to make high-level commentary by actuaries (and similar) in the scope of the Regulations.

Chapter 6: Updating the LGPS definition of investments

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

The proposed amendment will be helpful in eliminating any ambiguity.

Chapter 7: Public sector equality duty

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 cannot comment as we have not seen any equality impact assessment on the consultation.