Brunel
Pension
Partnership

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To the Ministry of Housing, Communities & Local Government,

In response to the government's LGPS Fit for the Future consultation, Brunel (the company) submits the following answers to your questions. This document represents the views of Brunel (the company). Partner funds from across our broader partnership may hold different views on the various topics, and this will be reflected more fully in their own consultation responses. We have indicated those areas where we may not be aligned within our responses.

As a leader among LGPS pools, Brunel Pension Partnership is proud of the contribution which our partners have made to date in reducing the costs of pension provision while investing in green energy and the local economy. The Fit for the Future consultation pushes further in that direction of travel and the pool welcomes policy clarity which will support collaborative action.

The government has identified the LGPS universe as ripe for considerable reforms, and the pools sit in the nexus of that change. We will need to coordinate action between our partner funds; establish new working relationships with those who have responsibilities and budgets for local planning; and collaborate closely with the other pools. This work is already in progress, but we have a keen understanding of the extent of the change required and the ambition of the government's timescale. All change incurs costs and introduces conflicts, especially that undertaken at pace. We welcome the government taking a directive approach and setting clear responsibilities, accountabilities and priorities to ensure action on those proposals which will have the greatest impact on the UK economy.

We look forward to continuing to work with government on this vital change for the LGPS members and the UK economy.

Laura Chappell
Chief Executive Officer
Brunel Pension Partnership

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Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Yes. Brunel agrees that all pools should be required to meet the standards set out in paragraph 22. Specifically, Brunel would welcome the opportunity to offer principal advice regarding investment strategy to the Administering Authorities (AAs). We believe that AAs taking principal advice on their investment strategy from the pool would deliver a more joined-up, consistent approach when shared across 10 funds, offering lower costs vs where each fund receives unique advice. This should allow for further rationalisation of the underlying investments, lower investment costs and improved net performance over time. It should be noted, however, that a number of our partner funds have different views regarding investment advice and that this will be reflected in their own consultation responses.

The transfer of all legacy assets into the pool simply completes the pooling process begun in 2016 and reduces unnecessary fragmentation. Eight years after pooling began, this is therefore a logical next step. Although the cost benefits of this step are likely to be less marked, it is a step consistent with pools taking full responsibility for the implementation of strategic asset allocation and investment management as the pool needs an understanding of the characteristics of the entire portfolio range to deliver the most benefit.

As an overarching principle, to make the review's implementation a success, we urge the government to be particularly clear on roles, responsibilities and accountabilities when designing regulations and guidance. For example, the roles of the AA and pension committee/fund appear to be interchangeable in the proposals, yet different skills and knowledge within the AAs may be needed to specify and identify local investment priorities and opportunities.

We already have a proven track record in local investing, impacting green and social agendas at the national and local authority level. We look forward to working to further deepen this partnership across our region and pool. But we note the new relationships that will be required in the context of devolved bodies and the extent of the specialist, local expertise required at the pools to ensure that national and local investments are balanced and joined up.

Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

The high-level local investment priorities and strategic asset allocation will have the greatest impact on outcomes for members and the local economy, so it makes sense for the AA to hold the responsibility for setting these objectives. We also note that our partner funds currently have different responsible investment targets which they may wish to specify, perhaps as part of their high-level or local objectives.

Our different partner funds have pension fund liabilities with differing maturity profiles and differing appetites for financial risk. Their local geography and social context demand differing investment needs. It is important to recognise these differences in the pool, and that we are ideally placed to identify what they have in common, and how they differ. We have a role to play in helping our partners coordinate their approaches on some of the objectives listed, to avoid isolated approaches pushing against pool cohesion and increasing costs and unwarranted complexity.

Brunel agrees that we should be held to account for all implementation activity which can and should be delegated to the pool to ensure that the division of responsibilities is clear. We welcome this clarity. Having already built an FCA regulated asset manager and developed deep expertise in manager selection and portfolio construction, a logical next step is to develop a strategic asset allocation service. Having a single principal strategic asset allocation adviser across all pool partners could be both cost-effective and make a contribution to pool cohesion. Within this proposition, we will also need to consider who completes cash management activities. For the pool to give best advice on a total portfolio management approach, it may be helpful for the pool to conduct these activities in future.

Brunel is entirely owned by our partner funds, and we have no other commercial activity beyond pursuing the best outcomes for our partner funds' members. The independent Board of Brunel has complete alignment with our partner funds' interests and is set up to achieve best *Value for Money* and optimisation in the broadest sense. We therefore have no conflict of interest in taking on these additional services, in support of our partner funds, there are no profit linked bonuses, and any conflicts created through delivery of the strategic asset allocation service could be mitigated through robust governance.

However, if the asset categories set out in the consultation template are to be used as the basis of the high-level strategic asset allocation, we note that this is a considerable change for our partner funds. While they would retain the most financially significant decision, genuinely pooling their assets at this level will reduce their choices and they may feel a sense of compromise as they move to a strategic and oversight role. We can work within the guidelines set here, but our partner funds would likely prefer to retain the ability to choose a more granular approach when setting strategic asset allocation or retain the ability to set other objectives which reflect their existing investment beliefs, for example on active vs passive investment styles and responsible investment. We do, however, anticipate that there will be reduced costs, conflicts and duplication of effort if we can work towards getting the best from the pool by working towards the categories in the consultation template.

We relish the responsibilities and opportunities ahead and urge government for clarity on timeframes and how they envisage pools being held to account by partner funds so that appropriate governance mechanisms can be developed.

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Yes. As mentioned above, the high-level local investment priorities and strategic asset allocation will allow the pool to have the greatest flexibility in implementing the investment strategy set by our partner funds. However, referencing the point above, we note our partner funds may not feel that such a high-level approach would fulfil their fiduciary duty, and thus they may prefer to retain the ability to specify additional investment beliefs and objectives.

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

We support the proposed template, with a caveat. These are quite broad bands but cover all the main financial categories. If these broad categories were imposed, it would provide a solid framework for the AA and the pools to work with, together. It would also help promote a consistent approach, reducing the portfolio specification granularity that prohibits economies of scale being realised.

In implementing this template, however, as mentioned above we would need to ensure that we retain the benefit of listening and reflecting the views and investment beliefs of our partner funds. To implement the likely range of investment beliefs we may need more granularity within investment 'buckets', specifying, for example, emerging markets or small cap or active vs passive.

As mentioned above, we note that partner funds currently set their own responsible investment policies and targets, as well as varied local investment priorities, and our partner funds are keen that we do not lose the benefits this has brought to pension funds in fulfilling their fiduciary duties to date. As a pool, we will need to ensure that this does not lead to the creation of a proliferation of tailored or separate products. However, retaining this approach would allow us to pool to offer different 'flavours' of responsible investment across our existing funds without too much difficulty and help us to align some partner funds with similar strategies to obtain further economies of scale.

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

Yes, we agree. The current advisory landscape increases cost and complexity and blurs accountability for advice. As investment professionals, we welcome the opportunity to give advice to our partner funds, recognising the natural alignment of interests which we share. As noted above, our partner funds may not support this view. Of course, we expect partner funds to continue to deploy external expertise where they lack this in-house, so that our advice can be challenged and alternative approaches considered from the outside market. This ensures that we are accountable for our advice and are encouraged to continue to innovate, which is key to reducing the perceived conflict of interest.

Our partner funds currently use a range of external investment advisers who have different commercial and financial models, impacting their advice on strategy and implementation. Ensuring clarity and consistency from the provision of advice will likely reduce the number of variations across strategic asset allocations, enabling further cost reductions and streamlining portfolios to provide improved performance and impact.

Strategic asset allocation advice from one source will create a greater degree of consistency across our partner funds. There is also currently an accountability shortfall, given the provision of advice in different places. If targets are not met, for example, is it due to asset allocation or relative stock selection? Receiving all advice from one party makes accountability much clearer. Today the consultants advise; they do not own the outcomes of the recommendations that are made; that is – and will remain – the role of the pension committee. As it stands today, asset allocation decisions (academically proven to be the most significant driver of return) have less of a focus than (less significant) manager appointments.

There is a role for independent and qualified advisors to help pension committees focus on oversight and the important and material drivers of pensions outcomes.

Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Yes. The use of an FCA-regulated entity as investment manager assures partner funds of FCA supervision; robust governance; clear responsibilities and accountabilities; professional systems/controls; and requirements for capital and liquidity for strong, stable financial partnership.

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As observed in the Consultation, all pool companies are going to need to evolve, and this will require additional resourcing. We welcome the onus being placed on pool companies to prepare business plans, in consultation with our partners and the government. Appropriate resourcing and the maturing of budgetary and governance controls within the pool will be fundamentally important to the next phase of pooling.

Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Yes. Brunel supports this government proposal since it completes the original purpose of pooling and enables the maximum efficiencies in terms of costs and scale. It is also a necessary step for pools to be able to take full responsibility for the implementation of strategic asset allocation and investment management of the entire portfolio, as mentioned above.

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Yes. Brunel believes it does makes sense to transfer legacy illiquid investments to the pool, especially investments purchased outside of the pool since the pool's inception. For older, pre-pool assets, Brunel already has a good understanding of their composition. We should consider whether transferring these assets makes financial sense, as it may be more sensible for the pool to simply oversee their run-off with partner funds.

Furthermore, since the start of pooling we have supported the development of a full private markets offering to our partners and this team will likely increase in headcount as the local investment agenda is progressed.

All of our partner funds have a shared custodian, State Street, which we jointly procured eight years ago when Brunel was first formed. This action has allowed Brunel to have a total portfolio view across all assets held by our partner funds, held in and outside of the pool. We already report on holdings outside of the pool. So, our view is that this resource is perhaps best shared between partner funds across a larger, growing, ongoing portfolio rather than a dwindling legacy in run-off, which we have full visibility of and could advise on without incurring any cost of transfer.

Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?

Brunel has already launched around 20 listed markets portfolios and is on its fourth cycle of private markets portfolios – the latter span five asset classes plus one local impact portfolio.

We are thus already accessing a greater variety of asset classes than individual LGPS funds use through their legacy portfolios, and our portfolio managers have the relevant expertise.

We can easily take on the listed market portfolios, totalling around £1bn, currently left outside of the pool (by March 2025) and transition them into our SAA model (by March 2026).

We are also very advanced in the provision of private markets using a delegated model in partnership with third party fund managers, spanning private equity and debt and including renewable energy, local place-based and impact mandates, this model has been constructed with a view to delivering all of our partners' private markets requirements over the past 8 years and our use of partnership makes the model scalable. When Brunel took on legacy property investments this consisted of over 120 individual property funds. Over the following years these have successfully been opportunistically reshaped towards our target fund, using our inhouse Property experts. We envisage following a similar process for other non-pooled private markets assets where possible.

Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

The indicative timeline for transitioning assets is reasonable. We are reliant on the co-operation of partner funds to support this.

The newer aspects of the proposals, for example, working on local investments and the changes of roles and responsibilities may take longer to bed down at the AAs without further clarity and direction and closer links to devolution plans. We believe the Devolution Bill will be an important step towards enabling this change. We suspect that gearing up to the pool providing strategic asset allocation advice over the next triennial review cycle is more realistic than the current actuarial review process, which is already well advanced with the partner funds' existing advisers. Overall, we believe it is achievable subject to clarifying the governance processes and adding any new skills and resources necessary to achieve the end objectives.

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

There is scope for a good degree of collaboration and, ahead of the consultation over the course of the last year, we have been exploring opportunities with other regulated pools.

This has already been part of our strategy agreed by our Board and Shareholder representatives in September 2024.

We are well placed to take other funds into our pool, either as a new partner/client or an allocation into one of our portfolios from another pool and we will collaborate to develop the changes proposed in the consultation e.g. delivering strategic asset allocation as a service.

Greater collaboration will not be possible without agreement from the shareholders of both pools. This could be a barrier to collaboration if shareholders do not see the advantages of such a move. It is important that the benefits and proposed collaboration are justified with a robust business case and explained clearly to shareholders. We believe that our partners are supportive of further collaboration, provided it is consistent with our partnership's goals.

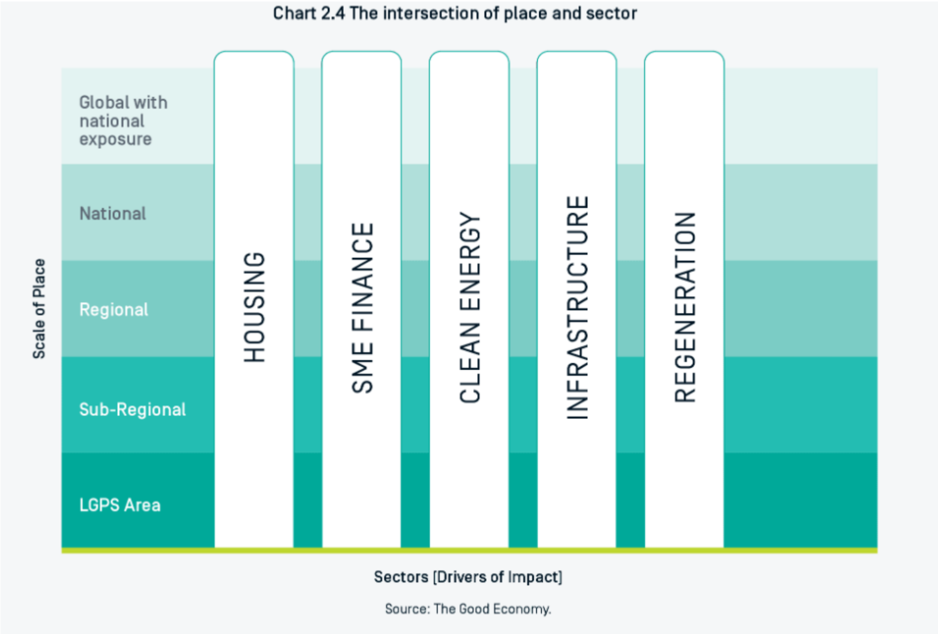
Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

Our pension fund partners will cite good reasons for pension administration to remain at LGPS level, not least (for most LGPS) the fact pensions savers are/were employed in the region and often live there, and this is a different skill to investment management. This local connection remains important.

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes?

The Impact Investing Institute has added some precision to 'local investment' which we find helpful (see their explanation of TGE's definition **here**), identifying local authorities and their strategic partners as the model's foundation stone. This also makes sense in terms of aligning objectives for local impact with the AAs' pension fund membership. However, it is possible that, both for setting objectives and for reporting, AAs may want to consider some "hyper-local" initiatives for social impact such as affordable housing to target areas where this is most needed. (See diagram below) It is worth noting that one of the Brunel partner funds, the Environment Agency pension fund, does not have a geographic focus. Instead, its focus is very much on sustainable investing.

As a pool, we would also expect to consider investments on a devolved-authority, regional or national scale, where larger infrastructure projects and a coordinated approach has a local benefit of relevance to our partner funds. We suggest working with other pools and the National Wealth Fund (NWF) and other partners to co-ordinate delivery of the government's industrial strategy to ensure consistent reporting and definitions for those national investments.



<u>**Question 14:** Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?</u>

Yes. This form of collaboration is crucial for local impact investing to be successful, as local authorities have the knowledge of social needs/gaps, and because local impact investing by its nature requires engagement with multiple local stakeholders. The pools have a complementary focus on their fiduciary duty as investors and are therefore well placed to judge where local impact ambitions and opportunities are appropriate to the risk-return profile required by partner funds.

Investment objectives should be specific and limited – otherwise there is danger of mission creep to meet more local priorities than can be assessed and funded. Coordination with devolved authority and national priorities will help ensure an enduring impact and greater focus.

Pool and AA governance will need to evolve to ensure we interact at the right level with these 'strategic local investment decision makers' (Combined Authorities, Mayoral Combined Authorities, Combined County Authority, Corporate Joint Committee or local authority).

An example is Brunel's Cornwall Local Impact Portfolio, the result of Cornwall Pension Fund commissioning Brunel to create a portfolio that targets affordable housing and renewables in Cornwall – but which also manages geographical concentration risk. At the outset Cornwall Pension Funds clearly defined what it wanted to achieve with this investment. Our experience suggests that the strategic local investment decision makers specify what outcomes they are seeking from a local allocation, so the pool and partner fund can seek to target investments that dovetail with that outcome – this includes any specific geographical location and the impact on e.g. emissions, biodiversity, jobs, housing, access to services etc. The pool can then explore viable investment opportunities, working with third parties with local knowledge.

Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Yes. It may make sense for these strategic local investment decision-makers to consult pools on local investment targets where pension fund money is envisaged as part of the solution. This is to ensure the targets are realistic, as the number of opportunities within a given geography is limited and the pool's overarching priority is to meet its fiduciary responsibilities. The government should be clear whether these targets should include 'hyper-local' and all gradients in the diagram above from 'LGPS local' right up to national investment.

Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Yes. We highlight the potential for collaboration between pools - we can share expertise on affordable housing, for example. The government should be deliberate in defining the role that the National Wealth Fund (NWF) has to play in this process, too. That should enable the gap funding and catalytic role played by their financial transactions to complement the fiduciary requirements for money crowded in from partner funds. We have started to work with other regulated pools, local investment experts and the NWF to design a scalable proposal.

Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

Yes. We would urge the government to look to our usual performance data as an FCA-regulated firm, but with consideration of additional local metrics that capture impact in context of area/population depending on the portfolio specifications and the individual AA's objectives: e.g. emissions impact, biodiversity impact, jobs impact, housing impact, access to services etc.

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Yes, noting that our governance model will need to evolve and that changes to governance take time to bed in.

Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Yes. We are here to support our partner funds in delivering this, building on the policies which we already operate as a regulated firm which cover conflicts, etc.

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

It's clear from the consultation that the government sees the role of the pension fund and the senior LGPS officer evolving. As pools become responsible for the implementation of investment decisions within the asset allocation template, the LGPS officer role appears to have a more strategic focus, blending overall local political and financial objectives within the AA. The officer will need to play an active part in the liaison between strategic local decision makers at combined authorities and pools in local investment, which is a new feature of the role.

We agree that this means this role needs to be of sufficient standing and capability to be able to influence and challenge effectively at a senior level, with budget setting responsibilities as well as being a voice of influence among the other strategic local investment decision-makers.

To implement the changes contained in this consultation and the subsequent bill, we will also need to conduct our own 'Good Governance Review' to review our own partnership governance to match this evolution. It is likely that the changes brought about by this review will require us to have a clearer definition of the shareholder ownership and partner fund oversight roles, where:

- Shareholder representatives on the Board are responsible for input and challenge into the pool's overall activities, budget and performance on behalf of the partner funds as a group; and
- Individual partner funds, as clients, take and challenge advice from the pool through a direct relationship with pool staff.

It would be useful for the government to confirm the intention.

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

No comment

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Yes. We are prepared to support with investment-related matters.

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

No comment.

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Yes. We would propose that the government clarifies the appropriate competencies and skills level. We would suggest that the knowledge is focussed on pensions, funding etc, (also see Q26).

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

No comment

Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Brunel supports the appointment of an independent person to support the pensions committee and inform any challenge to the pool. We would encourage clarity on the purpose of the role of the independent person and clear safeguards to avoid conflicts of interest. Our suggestion would be that the role supports the pension committee in confirming that it has fulfilled its fiduciary duties in agreeing the strategic asset allocation and other high-level objectives, such as on local investment.

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

We support this proposal, based on our experience of appointing a Shareholder Non-Executive Director (NED) as a director of an FCA-regulated entity.

In Brunel's case, one NED is specifically defined as the Shareholder NED, and actively seeks and feeds in the perspectives of the shareholders to the pool Chair, Chief Executive and board. This individual is selected and appointed by the AAs to be their representative, acting as the main channel for communication with nominated shareholder representatives at the AAs, ensuring that they are kept up-to-date and that their views are taken into account in Board deliberations. The appointment process ensures that anyone appointed passes the FCA 'fit and proper' test, has appropriate experience to be a director of an investment company, and has the time available to be able to fulfil the duties required by the law as a director.

While governance changes progress, our commitment to working in partnership with all our stakeholders means that we have agreed that we will invite shareholder representatives and pensions officers into the Board meetings as appropriate so they can help evolve our ongoing proposition over the next 18 months.

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

We currently have scheme member representation (2) on the Brunel Oversight Board (BOB) of elected members, which meets quarterly. As our governance evolves in future, we are keen to ensure members views are taken into account.

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Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

We support the ambition of consistency and transparency, and would urge the government, when all pools are FCA-regulated, to strongly consider the reporting the pools are already doing under the FCA regime and to utilise this wherever possible, rather than adding a further set of new reports. We welcome making elements of this reporting available publicly.

Question 30: 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 believe so.