Brunel Pension Partnership

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**Re: Consultation Document: Local Government Pension Scheme (England and Wales): Next Steps on Investments**

Dear LGF Pensions Team,

Thank you for the opportunity to comment on the consultation document: Local Government Pension Scheme (England and Wales): Next Steps on Investments.

This consultation response has been submitted on behalf of the Brunel Pension Partnership. We note that there is broad consensus within the Partnership on many points, but not all Partner Funds are in agreement on all points and they will be offering their own responses.

Answers to the specific questions posed are provided below:

**Q1. Do you consider there are alternative approaches, opportunities or barriers within LGPS administering authorities or investment pool structure that should be considered to support the delivery of excellent value for money and net outstanding net performance?**

The current arrangements are working well for the Brunel Pension Partnership and further changes are not necessary for us to continue to deliver excellent value for money and net outstanding investment performance. Further changes, and in particular the proposal to increase scale would need to be examined more closely to ensure that there is no negative impact either on short-term performance or on future governance arrangements. We are particularly concerned on the further transitional costs involved in a merger of pools, which in some cases would be incurred before Funds had recovered the transitional costs of the initial transition to Brunel.

There is an acceptance that the issue of scale is likely to be taken forward either by this government or the next. Several key issues are raised in the subsequent discussion including:

- the lack of evidence for the £50bn figure and concern that we need to transition again in future to £100bn or another figure incurring further costs and disruption
- limited further savings on listed markets with capacity constrained managers
- a preference for collaborative options where scale could be delivered if appropriate without disrupting current governance arrangements (noting this is predicated on appropriate scale for each asset class rather than a total £50bn across all asset classes)
- the risks of seeking scale outside of the LGPS, including different approaches to ESG
- shareholder vs client model and associated governance and financial risks associated with the different models

The Partnership will keep under review the benefits, risks and opportunities of adding further scale.

On the definition of 'pooled assets' and 'assets under pooled management', Brunel sees third party-managed vehicles set up by and managed by pool companies on behalf of their Funds as just as valid an approach (if not superior) as the pool having to form its own wrapped vehicle or product. Brunel considered these approaches and rejected them due to cost and the negative impact on costs savings whilst delivering no benefit. We consider these as 'pooled assets' even though the vehicle is third party owned. We would also request that you reconsider the definition of 'owned' – the pools do not own the assets, the pension funds do. This is an important distinction for fiduciary management purposes. In addition, we do not support the inference that internal management should be more preferable than a multi-manager model and would like to see the evidence for this assumption.

**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?**

The majority of listed assets within the Partnership have already been transitioned to Brunel so any proposal here is unlikely to have an impact on us. However, linking this question to Q1 and the need for Government to make the existing pooling arrangements more effective, Brunel agrees that pooling could never be fully effective if Funds are able to ignore the requirements without clear justification. Therefore, there should be mandatory requirements to pool all listed assets by a given deadline or include an explanation in the Investment Strategy Statement as to why the Fund had determined not to comply.

**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 above?**

The Brunel Pension Partnership is operating largely within the guidance set out by the Government, so we are supportive of the definition of pooling and therefore there would be little impact on us from the proposal. Though we welcome the proposal as part of changes to ensure the effectiveness of the current pooling arrangements across England and Wales, in agreeing that it is the responsibility of Partner Funds to set their own strategic investment strategy, it is noted that this includes their approach to responsible investment as well as broad asset classes and level of risk.

Brunel has the current capability and FCA permissions to offer advice to Partner Funds on strategic asset allocation, if it is requested.

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

We are broadly supportive of this proposal, with many Partner Funds already having arrangements in place.

**Q5. Do you agree with the proposals around reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so, how should this requirement operate?**

We broadly support the requirement that all funds should report in a consistent way against a broad set of asset classes (although see Q10 below).

We do not, though, support a requirement that such reports should be against a consistent benchmark. The benchmark chosen and target performance against a given benchmark is dependent on the level of risk agreed by Funds as part of their investment strategies, as noted in the response to Q3 above. Publishing net returns against a consistent benchmark would therefore likely lead to misinterpretation of the results and inappropriate comparisons.

The statement that pools own assets is incorrect, as previously stated.

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

Subject to the comments around a consistent benchmark in Q5 above, Brunel supports the proposals for the Scheme Annual Report.

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

We note that the responsibility for defining levelling up sits with Government and is not an appropriate matter to be determined by the LGPS. However, any definition of levelling up needs to be clear and capable of being shared with third party fund managers as part of portfolio specifications. It also needs to consider the below comments on the appropriateness of the Government setting requirements for Funds to publish levelling up plans and report on the total investments against such a plan.

Brunel notes that the 12 medium-term levelling up missions are very broad in their nature and therefore open to significant interpretation. As many of the investments would be made by third party fund managers this would run the risk of significant inconsistencies in whether investments met the levelling up criteria. For example, does an investment in a major UK pharmaceutical company developing new drugs meet the criteria to support the well-being of the local population?

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

Consistent with the responses in Q1 and Q3 above, we support the proposal that the pool can choose to invest through another pool's investment vehicle where the pool company determines that is the most appropriate way of meeting the investment strategies of their underlying Funds.

**Q9. Do you agree with the proposed requirements for the levelling up plan to be published by Funds?**

We do not support the Government prescribing a specific figure against which Funds should publish an investment plan and feel that this leads to a potential conflict with the over-arching fiduciary duty of the Fund. Partner Funds are concerned that the requirement to include a levelling up plan as part of their published investment strategy statements, including current levels of investments and future targets (subject to the clarification of the definitions as referred to in Q7), places additional burdens on Funds with no clear benefit to their primary fiduciary duty.

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

We note that the proposed reporting requirements, as set out in the consultation document, are again a further unfinanced burden at a time when Partner Funds are facing significant challenges associated with implementing the McCloud remedy, preparing for the Pension Dashboard and TCFD reporting. The extent of this burden is subject to greater clarification on what constitutes a levelling up investment.

It is also noted that it is likely that levelling up investments would be across the standard asset classes and would therefore be additional to the broad asset class reporting requirements covered in Q5 above. The question of what, if any reconciliation, would be required between these two reporting requirements should be further considered.

**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 investing in growth equity and venture capital for the LGPS which could be removed?**

We do not support the Government suggesting an ambition to invest any specified amount in private equity. As noted in Q9 above, such a proposal is seen as directly conflicting with the fiduciary duty of Partner Funds.

It is noted that there is some confusion over the Government's objectives under this proposal and the specification that the 10% allocation should be in private equity. The specific Government proposal did not include any requirement that the investments in private equity should have any UK component. It is also the case that the Government objectives could also be met through investments in alternative private market asset classes including private debt and infrastructure. We believe that the Government should clarify their objectives in this area and revised proposals developed, without the specification of a target allocation.

It is also noted that our Partner Fund's already have exposure to growth equity and venture capital and that therefore there are no real barriers to such investment. If investible opportunities arose, Funds would be happy to consider an investment if it is consistent with their own investment strategy.

**Q12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise with the Bank's expertise?**

As noted in Q11, the main barrier to investing in growth equity and venture capital is the lack of suitable investment opportunities of the appropriate scale and risk level for the LGPS. To the extent that the British Business Bank can utilise its expertise to identify and co-ordinate suitable investment opportunities, the Partnership would welcome future collaboration.

**Q13. Do you agree with the proposed implementation of the Order through amendments to the 2016 regulations and guidance?**

We support the setting of objectives for investment consultants and the proposed approach to implementation of the Order.

**Q14. Do you have any comments on the proposed amendment to the definition of investments?**

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We support the proposed amendment to tidy up the existing regulations and remove any ambiguity.

**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.**

We agree with the Government's assessment that there would be no direct impact, and potential beneficial impacts on protected groups from any increase in levelling up investments.

Yours sincerely,

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Brunel Pension Partnership Limited