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

London Borough of Hammersmith and Fulham Pension Fund Response

Further guidance from central government on next steps on investment within the public sector is valued by The London Borough of Hammersmith and Fulham. The London Borough of Hammersmith and Fulham Pension Fund is a key supporter of the London CIV asset pool, with 70% of assets pooled. Greater clarity on the relationship between clients and asset pools would therefore be of significant importance to the fund. The London Borough of Hammersmith and Fulham Pension Fund supports the government's move toward to levelling up investments, with more than 5% already committed to various initiatives. However, The Fund would urge caution with regard to being too prescriptive on asset allocation and has concerns over the 10% target to private equity, alongside the government's ambition for 5% within infrastructure and 5% to levelling up.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

The London Borough of Hammersmith and Fulham Pension Fund agrees that pooling is a suitable strategy to achieve economies of scale and value for money. There is also further scope for increased pooling of assets, collaboration between pools and sharing of skills and knowledge.

It is important to note that there are challenges within pooling that impact LGPS's ability to fully transition assets into the pool companies. LGPS Funds invest in a large range of assets, some of which are extremely specialised, and others are particularly long term focused. Thus, pool companies may not always be able to offer appropriate investment solutions.

While it is noted that the government is keen to focus on fee reduction, the Fund believes that the focus should be on investment outperformance against a relevant benchmark net of fees. The Government proposals in questions 5,9, and 10 will themselves incur further costs and degradation of the fee/return ratio. The Fund wishes to emphasise that there is an optimal point in the cost/benefit analysis of achieving the trust of the public regarding transparency and net zero goals and reporting which ultimately is a finely tuned Committee decision. The priority for all LGPS Funds is maximising the return on investment to pay pensions in full and on time. Focusing on the absolute fees may provide some assistance in selecting products, but the overall value added to Funds should be considered as more relevant and useful information.

In some cases, the costs of an asset class/manager may be greater, but these may be justified by the higher returns or safely consistent returns. Therefore, it would seem counterintuitive to transition, or possibly have to liquidate, those existing assets into pools at the expense of long-term performance.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

The Fund does not disagree with a deadline to transition listed assets to their LGPS pool. However, there should be a degree of flexibility, recognising that this may not be possible for all funds. 31 March 2026 seems more sensible.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

The London Borough of Hammersmith and Fulham Pension Fund does not believe that the interaction between funds and pools should be fully prescribed. Funds are responsible for setting their own strategic asset allocation and what works for one fund does not necessarily work for another. As with asset allocation, investment advisers are selected on their suitability for each fund. There is potential for conflict between the advice received from a pool and the advice received by the investment advisor for individual scheme Funds. The strengthening of relationships between pool companies and clients is vital to the success of pooling, so to insist upon a certain style of interaction between pools and funds would not be conducive to this result. In summary, effective collaboration between a fund and a pool companies should be possible without the need for guidance on how interactions should take place.

Additionally, pool companies may not always have suitable strategies/sub-funds on offer on their platforms, or the ability to adequately resource these strategies. There is concern that the increased demand on the pool companies may be significant, especially those with a large number of clients.

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?

The London Borough of Hammersmith and Fulham Pension Fund agrees that it is of utmost importance that Committee members have the required skills and knowledge to make informed investment decisions.

While pension fund committee members are not currently mandated by legislation to undertake training, London Borough of Hammersmith and Fulham Pension Fund would support new legislation that provides a framework for enforcement that would improve the level of expertise and knowledge across LGPS committees.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each

asset class against a consistent benchmark, and if so how should this requirement operate?

The London Borough of Hammersmith and Fulham Pension Fund disagrees with the proposals regarding reporting.

LGPS Pension Funds are already under significant pressure with existing reporting requirements, and it is anticipated this will increase further due to the introduction of climate risk reporting in 2024/25. Current reporting requirements within the pension fund annual reports include a section on pool companies which incorporates performance, returns, costs and net savings.

It should be recognized that there are already substantial time constraints in this area and additional reporting requirements could delay the sign off of the pension fund annual pension fund report and accounts by external auditors.

If this reporting requirement were to be implemented, an accompanying guidance note from the SAB would be desirable.

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

In the event that the changes to reporting in question five are implemented, then the Fund would agree that a uniform set of statistics to achieve comparability between funds is reasonable.

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

The London Borough of Hammersmith and Fulham Pension Fund broadly agrees with the definition but would seek that it is clarified further regarding two areas of ambiguity.

Firstly, the examples given alongside the definition would suggest that the investments made must be directed to a particular cause.

Secondly, the current definition is unclear on what is classed as ‘local’, for example, whether a local investment would encompass all of the UK or would be more specific to a regional investment.

It would be the Fund’s position that all of the UK should be classed as local and the investments made can be indirect, i.e. through a pooled fund with an investment manager rather than directly into a specific project.

It is vital that the size of individual pension funds and their scope to access various types of investment are considered.

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

The London Borough of Hammersmith and Fulham Pension Fund agrees. It makes sense that pools should collaborate with other asset pools to offer broader asset ranges to clients, especially for pools which do not have either the size or expertise to invest within all asset classes.

It should be noted, however, as pool owners, it is the responsibility of individual funds to direct their own asset pools if this is an avenue that they wish to pursue. All client assets should be unitised and held within their respective asset pools.

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

The London Borough of Hammersmith and Fulham Pension Fund disagrees. LGPS Pension Funds are already under substantial pressure with current reporting requirements and any additional reporting requirements may not be realistic for all Funds.

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

As with the answer to question 9, The Fund disagrees.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

The London Borough of Hammersmith and Fulham Pension Fund disagrees with this notion. The government's ambitions for a 10% allocation to private equity, 5% to infrastructure and 5% in levelling up investments, contradicts the LGPS schemes autonomy to make their own investment decisions according to the Fund's liability profile. While a 10% allocation to private equity may be suitable, in terms of risk/return appetite, for some funds, it will not fit all LGPS investment strategies and future funding and pensions outflow obligations.

It is critical to stress that the LGPS's principal duty is to pay pensions in full and on time, and no action that could jeopardise the Fund's ability to do so should be taken.

The Fund believes there are several challenges to investment within the private equity asset class, including, but not limited to, the following:

- Liquidity: private equity assets are illiquid and if funds lock too much of their portfolio into these asset classes, liquidity issues may arise in the future.
- Complexity and specialism: private equity investments, particularly venture capital, is an asset class where the Pension Fund may not have specialism. LGPS funds may incur considerable external advice costs.
- Cost: typically, the cost of managing private asset classes is more than listed asset classes, and there would need to be appropriate returns to justify it.

- Risk/returns: The majority of LGPS schemes are now fully funded and many are taking the decision to de-risk their strategic asset allocations.
- Private equity assets hold considerably more risk than traditional asset classes, and thus the return must warrant the additional level of risk taken.

It is also important to note that, in regard to all the government ambitions (10% allocation to private equity, 5% to infrastructure and 5% in levelling up investments), some LGPS funds may already be undertaking these actions under other titled allocations and should not have to be part of a brand new allocation awarded.

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?

The opportunity to collaborate with the British Business Bank would be assessed equally alongside all other investment opportunities presented to the London Borough of Hammersmith and Fulham Pension fund.

However, the Fund believes this would be a more appropriate discussion for the pool companies because collaboration is unlikely to be feasible on an individual fund level.

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

The Fund agrees. As per the requirements of the Competition and Markets Authority (CMA), Funds should already be setting these objectives,

Question 14: Do you agree with the proposed amendment to the definition of investments?

The Fund agrees.

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.

The recipients of the LGPS cover a wide range of individuals and by its very nature could disadvantage several groups if this a ring-fenced reserve of deferred pay is jeopardised by taking a level of risk beyond that which is necessary to generate returns. As an industry we should be conscious that any new initiatives are designed in such a way that they are not prescribing exclusion of any individuals or groups.

In addition, any additional reporting resulting from this consultation should be designed in such a way in that they will be accessible for all users: this follows accessibility regulations in Public Sector Bodies (Websites and Mobile Applications) (No. 2) which came into force during September 2018. Furthermore, many studies have found that the average reading age of an adult in the United Kingdom is age 9 and the implementation of any further reporting requirements should consider this factor in their design.