Appendix 1

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

City of Westminster Pension Fund Response

The Westminster City Council Pension Fund welcomes central government's further guidance on the next steps on investment within the public sector. The Westminster Pension Fund is one of the largest supporters of the London CIV asset pool, with over 70% of assets pooled. Therefore, to have increased clarity on the relationship between clients and asset pools would be of significance. However, this should be approached with caution. Westminster City Council Pension Fund is supportive of the government's approach to levelling up investments, and already has more than 5% committed to various initiatives. The Fund is however very cautious of 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 Westminster Pension Fund agrees that pooling is an appropriate 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.

In addition, it should be noted that there are challenges within pooling that impact LGPS's ability to fully transition assets into the pool companies. LGPS Funds invest in a wide variety of assets, some of which are very specialised and long term focused. Thus, pool companies may not always offer suitable or viable 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. Focusing on the absolute fees may provide some assistance but the 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. Therefore, it would seem counterintuitive to transition those assets into pools at the expense of performance.

The Fund acknowledges that some pools may have fallen short of the government's pooling targets. However, in the case of illiquid long term assets, this may not always be possible or practical to transition. Since the introduction of pooling, many Funds have made great strides towards transitioning of assets, and this is evident in the cost savings made.

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?

Not agreed - March 2026 is a more reasonable deadline for transitioning listed assets into pool companies, where possible.

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 Westminster Fund believes the strengthening of relationships between pool companies and clients is key to successful pooling. With funds responsible for setting their own strategic asset allocations, the pool companies may not always have suitable strategies/sub-funds on offer on their platforms, or the time taken to source these strategies. There is concern that the increased demand on the pool companies may be significant, especially those with a large number of clients.

Scheme Funds have their own investment advisors so consequently there is potential for conflict between advice received from a consultant and a pool. Effective collaboration between a fund and a pool companies should be possible, but we do not see the need for guidance on how interaction should take place.

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?

Agree - Westminster believes it essential that Committee members have the required skills and knowledge required to make investment decisions, with a mandatory framework in place to achieve this. Pension Fund Committee members are not currently mandated by legislation to undertake training and new legislation to enforce it would improve the level of expertise and knowledge across 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?

Disagree - LGPS Pension Funds are already under considerable pressure with current reporting requirements, and this is expected to increase further with 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 acknowledged that there are already significant time constraints in this area and additional reporting requirements may lead to a delay in external audit signing off of the pension fund annual pension fund report and accounts.

If this reporting requirement were to be implemented, any guidance from the SAB would be welcomed.

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

Agreed - this is sensible. If the changes to reporting in question 5 were to be implemented, it would be reasonable to have a uniform set of statistics, so comparability is achievable.

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

The current definition makes it unclear whether the investments must be direct or whether the UK as whole is classed as local. It is also important to consider the size of individual Pension Funds and their scope to access these types of investment.

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

Agree - some asset pools do not have the size or expertise to invest within all asset classes, particularly private markets. Therefore, it would make sense for pools to collaborate with other asset pools to offer those broader asset ranges to clients. Although 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?

Disagree - it should be acknowledged that LGPS Pension Funds are already under considerable pressure with current reporting requirements and additional reporting requirements may not be practical for all Funds.

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

Disagree – as per answer to question 9 above.

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?

Disagree – a 10% allocation to private equity, alongside the government's ambition of 5% within infrastructure and 5% in levelling up investments, undermines the LGPS schemes autonomy to make their own investment decisions. While a 10% allocation to private equity may be appropriate for some funds, it will not fit all investment strategies and future funding and pensions outflow requirements. It is important to emphasise that the LGPS's overriding duty is to pay pensions in full and on time, and ulterior agendas should not be pursed at this expense. The Westminster Fund believes the following factors bring challenges to investment within this asset class:

- 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 significant cost reference the use of external advisors.
- 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.

- 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.
- Risk/returns: private equity assets hold significantly more risk than traditional asset classes, and the return must justify the level of risk taken. The majority of LGPS schemes are now fully funded and this seems a sensible time to de-risk rather than to increase.
- Interest rates: current high interest rates make less risky asset classes more viable and appropriate.

<u>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?</u>

Westminster would assess this opportunity, alongside other investment opportunities, although we do not believe this collaboration would be feasible on an individual fund level. This would be a more appropriate discussion for the pool companies.

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

Agree - Funds should already be setting these objectives, as per the requirements of the Competition and Markets Authority (CMA).

<u>Question 14: Do you agree with the proposed amendment to the definition of investments?</u>

Agree.

<u>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.</u>

The levelling up initiatives should have a positive impact on the whole, although we are conscious that it should not be too prescriptive as to exclude any individuals. In addition, appropriate reporting 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.