LGPS CONSULTATION – NEXT STEPS ON INVESTMENTS

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Asset Pooling and the LGPS

The government has clearly stated it wants to see pooling move further and faster to substantially increase scale and drive better value for money. Several next steps for achieving scale are proposed:

- Accelerating the pace of transition of liquid assets to pooling
- Pool companies expanding in-house capabilities to reduce or replace the use of private sector investment managers
- Indicating direction of travel towards a smaller number of pools to achieve a target of more than £50 billion in funds directly invested by any one pool (notably, reference is made to scale significantly in excess of £50 billion)
- In the short-to-medium term, for pools to move towards greater collaboration - citing the London Fund (collaboration between London CIV and LPP) and GLIL (LPP and Northern) as case studies to replicate. However, inter-pool competition is not seen as a desirable progression
- Pools to consider specialisation, building on the strengths of particular areas of investment – particularly in the context of the full suite of Private Markets asset classes
- Clearer delegation to pool companies on investment strategy implementation, whilst recognising investment strategy decision-making remains in the hands of the funds
- In particular, pools should deliver on the instructed desired asset class and level of risk, but should not be offering an "excessive… choice of specific assets"

It is proposed LGPS funds should:

- Transfer all listed assets to the pool by 31 March 2025 (i.e. by the start of the next triennial valuation cycle)
- Set out in the ISS:
    - Assets which are "pooled", "under pool management" and "not pooled"
    - Provide rationale, value for money, and date for review of assets which are under pool management or not pooled
- Have an investment-related training policy, and report against this
- Include additional information in annual reports regarding progress of asset pooling, including reporting on the net savings from pooling

LGPS Investments and Levelling Up

In its Levelling Up White Paper (LUWP) the government set out its ambition for LGPS funds to invest in projects that aim to tackle the uneven distribution of opportunity in the UK.

Proposals in the consultation build upon the LUWP, with the headline that funds would be required to set a plan to invest up to 5% of assets in levelling up in the UK, including a timeline to implementation. Funds would need to report against this plan in annual reports.

The consultation provides further clarity on the definition of a "levelling up" investment, identifying 12 medium-term levelling up missions: living standards, research and development, transport, digital connectivity, education, skills, health, well-being, pride in place, housing, crime and local leadership.

Regarding local investments, it is proposed that pool companies assist decision-making over investments made locally, in order to avoid any actual or perceived conflicts of interest between fund and administering authority.

Investment Opportunities in Private Equity

As part of his Mansion House speech yesterday (10/7/23), the Chancellor Jeremy Hunt laid out plans to make UK pensions capital available to support UK companies whilst seeking to boost the retirement incomes of pension savers. The initiative focuses on providing investment in high-growth, innovative technology companies.

For the LGPS, the government's ambition is to see broadly a doubling of the current allocation into private equity – targeting a 10% allocation to these investments. Interestingly, there is no explicit stipulation that these investments must be UK-based, although significant inference to this is ultimately made throughout.

Further, our read is that a fund may be able to legitimately claim an investment in UK-based private equity contributes to both the ambitions for LGPS investment in private equity, as well as the levelling up requirements.

From an implementation perspective, the government encourages funds and pools to collaborate with the British Business Bank (BBB), citing the BBB's extensive expertise and capabilities in venture capital and growth equity.

Improving the Provision of Investment Consultancy Services to the LGPS

The essence of the government's proposal is to clarify that all LGPS funds would be formally required to set objectives in relation to the Competition and Markets Authority's (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the Order) for investment consultants.

In this context, the consultation defines "Investment Consultancy services" as where the administering authority receives advice relating to:

- investments that may be made or retained by or on behalf of the administering authority
- any matters in respect of which the administering authority is required by law to seek advice in relation to the preparation or revision of the investment strategy statement
- strategic asset allocation
- manager selection

We expect many LGPS funds will have already established objectives – consistent with the Order – for their investment consultants. For such funds this will be business-as-usual.

Updating the LGPS Definition of Investments

Finally, to clear up a technicality, the government have added the word "partnership" to their definition of unquoted securities investments:

"Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership"

So what?

There is much to digest in this far-reaching consultation.

Our ongoing commitment is to provide perspective on the evolving regulatory investment environment for the LGPS. As such, we will be engaging with a range of market participants, including – most importantly – our clients, as we form our response to the consultation. We are also available to assist our clients as they consider their own responses.

Please get in touch with us if you would like to discuss any aspect of the consultation further.