London Borough of Islington Pension Fund (LBI) Draft Response

LBI as administering authority of the Islington Council Pension Fund, welcomes the Government's consultation that is well overdue and in large supports the majority of the proposals, indeed many of the proposals the LBI already does, such as member training and objective setting for consultants.

LBI does have some concerns and we will tackle these question by question below.

<u>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?</u>

LBI believes that pooling has already achieved savings on listed assets and has furthered the existing collaboration that already existed amongst LGPS Funds. It has forced asset managers to collectively engage and has reduced fees in the market overall. There does need to be more collaboration between pools themselves, with pools willing to share expertise freely rather than treat each other as competitors.

LGPS Funds invest across a range of (in some cases) highly specialised and long term focused asset classes. If individual Funds currently invest in niche products for which there isn't an economies of scale at the pool, it may be very difficult for the Fund to transition.

Other barriers to investing include where existing investment consultants do not rate the pools investment product as either appropriate, or as inferior to the Funds existing products. What does the government suggest Funds do where investment advisors have advised on such matters, even if it goes against pooling?

On reducing fees, 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. This is especially true for high-cost niche products. Therefore, it would seem counterintuitive to transition those assets into pools at the expense of performance.

<u>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?</u>

Although LBI agrees in principle that transferred listed assets should be achievable (indeed only one listed asset at LBI is held outside LCIV), it would be impossible where a pool does not provide an existing product unless they have plans to implement. Setting a hard fast deadline may not work in certain situations or no existing comparable products. There is also market impact risk if all assets are being transitioned by this set date as such this should be avoided.

<u>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?</u>

As above, 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 sufficient resource to investigate these strategies. There is concern that the increased demand on the pool companies may be significant, especially those with many clients, leading to inadequate product offerings and service.

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.

<u>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?</u>

Agree – LBI already has its own training policy and any guidance that improved the requirements for member training and standards generally would improve governance and provide better outcomes for the LGPS.

<u>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?</u>

Disagree – LGPS Funds have different investment styles and asset allocations so comparing performance of two Fund is always extremely challenging. Assets classes also vary wildly within themselves; a Fund that has high equity growth bias VS high value equity bias would not be appropriate or consistent with each other. This is even more apparent with complex illiquid strategies such as infrastructure.

PIRC already does this to some degree with its annual statistics, which although can be interesting they are not meaningful.

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

<u>Question 6: Do you agree with the proposals for the Scheme Annual Report?</u>

Agreed - if Q5 were agreed 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?

LBI understand the term local to be UK and to include pooled investments.

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 – Pension Funds are there to serve the best interest of members and local taxpayers not the Government's own priorities.

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

The Fund is able to report on its UK investments but does not accept that this should be labelled as "levelling up investments" as this infers these are part of a Government agenda rather than generating value for members and local taxpayers.

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 mandatory 10% allocation to private equity, alongside the government's ambition of 5% within infrastructure and 5% in levelling up investments, undermines LGPS autonomy to make their own investment decisions.

Whilst LBI already meets two of these, investing 10% in private equity would require a huge change from the current investment strategy.

Private equity is inherently the single riskiest asset class and although can make significant returns for investors, many investments fail and there are countless examples of questionable ESG practices from private equity managers that are not congruent with LBI's investment beliefs.

Any investment in private equity would need to be consistent with risk, return and ESG hurdles of LBI.

If this were limited to UK only, LBI believes (given the opportunity set in the UK and the amount of resource at LGPS Funds) mandatory allocation is bordering on reckless.

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?

LBI does not believe this is appropriate for a small fund. If a pooled Fund were set up it would be appropriate to review the opportunities with legal and investment consultants before any decisions were taken.

Under no circumstances should Pension Fund's be mandated to invest in highly speculative venture capital investments.

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

Agree - LBI already sets these objectives, as per the requirements of the Competition and Markets Authority (CMA).

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

Agree.

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.

LBI does not feel there is enough information to come to a firm agreement on the point above, although indicatively it does not appear to impact a specific group in a negative way.