LGPS: Fit for the Future – Avon Pension Fund response - DRAFT

Chapter 2: LGPS pooling

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

We agree with:

i) Administering Authorities would remain responsible for setting an investment strategy for their fund, and would be required to fully delegate the implementation of that strategy to the pool.
ii) Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies. Note that our pool company, Brunel, is already FCA authorised and has demonstrated deep investment expertise.

We agree that legacy assets should transfer into the pool, except for illiquid and closed ended funds that are winding down. Such transfers would be inefficient for the pool company as it will create a long tail of small holdings for them to manage along with transaction costs to transfer. Decisions could be driven more by efficiency rather than what is in the best interest of the client fund.

Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

The administering authority (AA) must retain the ability to set high level investment objectives and high level asset allocation, as risk/return trade-offs must be aligned with each AA's management of liabilities. If the pool company is to take more responsibility for implementing investment strategy (for example, allocation within equities) then there needs to be closer working between the pool company and AA. In addition the AA must be able to ensure its risk return appetite is met and that it is able to set its ESG/climate objectives and risk management objectives (as this is linked to the funding strategy which is bespoke to an LGPS fund).

We agree that implementation related to the choice of manager or underlying funds is fully delegated to the pool company.

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

To meet its fiduciary duty the AA needs to be assured that the investment strategy targets an appropriate level of risk and return to meet its funding objectives. Therefore the AA needs to retain sufficient influence over the investment strategy to ensure this is the case. In practice this will require a different relationship with the pool company, working more in partnership to ensure the objectives of the client fund are met.

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

As drafted it is too simplistic. Most LGPS funds have the largest allocation to equities. At a minimum, the preference between active and passive should be included in the template, as this has a significant impact on the costs borne by the client fund. Likewise government bonds should be split between Index linked gilts and fixed income gilts as a fund may have a different attitude to each depending on their funding strategy.

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

Conflicts of interest may arise if pools provide strategic advice and implement the strategy. Therefore LGPS funds should *not be required* to take strategic advice from the pool company. Whilst AAs may wish to obtain strategic advice from the pool company, they must be able to access independent high-level strategic advice and ultimately it is their decision which advice to accept, and if necessary explore other options with the pool company. Considering both pool advice and independent advice would invariably increase costs for the LGPS fund.

We envisage the AA procuring advice from an investment consultant, to provide AAs with assurance, to challenge the pool and ensure consistency with their funding strategy, with the scope of the advice limited to high level strategic objectives.

The AA's Investment Strategy Statement will need to clarify where the strategic responsibility lies between the pool company and the AA to ensure the AA discharges it fiduciary duty.

Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Yes, Brunel Pension Partnership Ltd is an FCA authorised investment management company.

Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Yes, Avon Pension Fund has already transferred all its listed assets into the pool.

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

No. We do not agree as it has not been made clear the benefit to the pool company or the AA of transferring illiquid, closed ended funds being wound down to expiry. This will merely result in the pool company managing a long tail of small holdings which will increase inefficiency (and costs) for the pool, diverting resources away from other activity that would add value and providing no benefit to the AA.

Illiquid assets that are not in wind down should transfer where transfers can add value. In specie transfers or the assets remaining in AA ownership will reduce transfer costs.

We would support a requirement that no new illiquid investments should be made outside the pool.

Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?

Significant additional resource will be needed as a diverse set of assets with no economies of scale. We believe there are more important aspects of these proposals that will add value to AAs that should be prioritised such as building local investing capabilities.

Implementation

Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

Pool companies will need to scale up to ensure they have the capability to provide strategic advice, the ability to implement strategies, the bandwidth to manage multiple illiquid closed-ended assets, and a deeper capability in local investing. Even for those pools that are FCA authorised, March 2026 is an unrealistic target for everything to be in place.

Other developments

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

We are in favour of collaboration between pools if this benefits the client funds in terms of lower costs or access to greater range of specialist portfolios.

In our view it is for the pool company to drive collaboration and demonstrate it is in the interest of its clients. Furthermore, the pool company should be able to decide whether to invest via another pool if that is also in the clients' best interests.

Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

We are not supportive of mandated collaboration on issues such as administration. In contrast to investments, the potential to generate significant economies are lower but risk of transferring data etc. far higher. Much time and resource is spent on working with employers to ensure clean and accurate data, so developing relationships is crucial. No evidence has been provided to demonstrate that increasing scale will make this more efficient.

Chapter 3: Local investment

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes?

Our Local Impact portfolio targets the South West region as we think this will enable us to deploy capital across a diverse range of assets to meet the overall investment objectives. We include all our partner funds within this region even though Oxfordshire and Buckinghamshire are outside the south west.

We do not think area boundaries should necessarily dictate the scope of such investments as people and businesses cross such boundaries, for example in terms of housing.

Question 14: Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

We have already informally introduced the managers selected for our Local Impact portfolio to local bodies and organisations that may have local investment opportunities. Therefore we agree AAs should work with such bodies to identify suitable opportunities. However, due diligence and decision making as to whether the project will deliver the appropriate risk adjusted return, must be delegated to the pool company or the managers they have selected to manage the portfolio and the onus to bring forward opportunities for consideration must lie with the local bodies, not the funds or pools. Therefore these bodies will have to develop their own capabilities.

Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

The Avon Pension Fund already has a target allocation of 3% to Local Investing which is set out in our Investment Strategy Statement (ISS). We have committed to affordable housing and sustainable infrastructure funds and in the process of committing to support local business financing.

We support the inclusion of a target range in the ISS.

Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

If pools are to implement clients' investment strategies then they will need to develop this capability. Unlike for listed portfolios, we will expect the pool company to allow greater involvement of client funds in monitoring these investments and communicating to their stakeholders about the impact these investments are having in their locality.

Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

We agree that administering authorities should report on their local investments and their local impact. This could include a range of metrics such as numbers of affordable homes provided, number of local jobs created, new businesses set up, units of renewable electricity generated.

Assuming that the pool is managing the investments, the pool company would be expected to provide metrics that have been agreed with the AA. We would assume that the pool would agree these metrics with its client base for each type of investment rather than them being client specific.

If legacy illiquid local investments were to remain with the individual LGPS funds, then the AA should agree metrics with the individual fund manager.

Chapter 4: Governance of funds and pools

Fund governance

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

We welcome the proposals to implement the SAB's Good Governance recommendations. These improvements to governance are long overdue. The Avon Pension Fund has already implemented most of the recommendations.

Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

We support this proposal. We already publish a training policy and annual plan, and a conflicts of interest policy.

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Yes. Avon Pension Fund already has a Senior LGPS officer. As the pension fund sets its own budget, approved by the pensions committee, we do not understand why the Senior LGPS officer would need to be involved in the local authority's budget setting process, unless it's in relation to services the local authority provides to the pension fund.

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Yes. Avon Pension Fund has published its administration strategy.

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

We support improving the accessibility and readability of all LGPS Fund documents, including the Annual Report. Where policies and strategies are published on the Fund's website, there should be no need for them to also be included in full within the Annual Report. We note that CIPFA's most recent guidance has already disapplied this requirement.

Avon Pension Fund is in the process of making all its stakeholder reports accessible including its 2023/24 Annual Report.

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

We are supportive of the improvements to the governance arrangements and there needs to be a monitoring process to ensure all LGPS funds are complying.

However biennial reviews may be too frequent in terms of impact and the internal costs and resources required for the process. These reviews should encompass all aspects of the pension fund; thus it may be more appropriate to conduct the review every 3 years after the triennial valuations and GAD Section 13 process.

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Yes. Training and having the knowledge to consider issues thoroughly is a priority for our pension fund. We support aligning the knowledge requirements for the pension committee with the pension board, and for all officers to have appropriate level of knowledge and understanding.

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Yes. Committee members and those that nominate them need to have clarity as to the training requirements.

Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Avon Pension Fund Committee includes 3 independent members with voting rights. These members bring knowledge and expertise across pension fund administration, investments and funding. They are able to give deeper insight to issues, provide wider context to issues being discussed and robustly challenge officers and other advisors especially around strategic or policy decisions.

<u>Pool governance</u>

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

We support this proposal. If AAs delegate greater powers to the pool company, a strong and constructive relationship needs to be maintained at the pool company board level to provide assurance to the AAs and pension committees.

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Our pool governance arrangements include member representation on the Oversight Board which comprises the Chairs of our pension committees. The Avon Pension Fund committee includes member representatives with voting rights, enabling them to express their members' views when discussing pooling or investment strategy.

Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

AAs will continue to need reporting on investment performance, climate and other ESG metrics as well as costs. We receive these annually either from the pool or legacy managers and service providers, in line with the Cost Transparency Initiative for investment costs. Any additional delegation of responsibilities to the pool company should not reduce the level of reporting to AAs.

Chapter 5: Equality impacts

Question 30: 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 do not believe that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals.