


# Consultation Proposals and Key Considerations - Appendix 2

- Reforming LGPS Asset Pools
- Boosting investment in localities and regions in the UK
- Strengthening governance of Funds and Pools

# Proposals - Reforming LGPS Asset Pools

- LGPS Funds fully delegate investment implementation to pools
- LGPS funds take principal investment advice from pools with potential for pools to set strategic asset allocations
- Pools required to be FCA registered / regulated, and appropriately resourced
- LGPS Funds to transfer legacy assets to the pool (hard requirement March '26, target remains March '25)
- Pools required to develop capacity and capability to undertake due diligence on local investments

# Proposals – Asset Management Roles and Responsibilities

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High  Low	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship	Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.	
	Cashflow management	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary	

# Proposals – Strategic Asset Allocation Template

Table 2: template for strategic asset allocation

<b>Asset class</b>	<b>Strategic asset allocation (%)</b>	<b>Tolerance range (<math>\pm\%</math>)</b>
<b>Listed equity</b>		
<b>Private equity</b>		
<b>Private credit</b>		
<b>Property / Real estate</b>		
<b>Infrastructure</b>		
<b>Other alternatives</b>		
<b>Credit (i)</b>		
<b>UK Government bonds</b>		
<b>Cash (ii)</b>		

# Current Pool Models

Pool	Pool Model	Number of LGPS Funds	Total Assets £bn	Assets in pooled vehicles £bn	Assets managed by pool £bn	Number of pool sub funds
Access	Joint committee management, Fully outsourced investment management provider	11	64.6	32.7 (51%)	44.7 (69%)	30
Border to Coast	Partner/shareholder, FCA regulated, Internal management, Developing advisory	11	63.7	37 (58%)	45.3 (71%)	17
Brunel	Partner/shareholder, FCA regulated, External management only	10	40.3	32.2 (80%)	34.7 (86%)	27
LGPS Central	Partner/shareholder, FCA regulated, Internal management, Developing advisory	8	61.4	19.7 (32%)	27.5 (45%)	26
Local Pension Partnership	Partner/shareholder, FCA regulated, Internal management, Administrator	3	23	21.9 (95%)	23 (100%)	10
London CIV	Partner/shareholder, FCA regulated, External management only, Developing advisory	32	50.8	17.2 (34%)	31.6 (62%)	24
Northern	Joint committee management, 2 pooled investment vehicles: GLIL Infrastructure, NPEP Private Equity	3	61.4	3.7 (6%)	59 (96%)	2
Wales	Joint committee management, Fully outsourced investment management provider	8	25	13.3 (53%)	18.5 (74%)	10

# Considerations – Reforming LGPS Asset Pools

- Investment implementation may be delegated but LGPS Funds are still responsible for meeting liabilities and still need to be engaged about implementation.
- LGPS Funds will need appropriate capacity, capability, and levers to be able to hold Pools to account for performance. Pension Fund committees will still need their own advisors but these would be independent advisers in the proposed approach.
- Pools providing investment advice to Funds carries potential conflicts of interest that would have to be managed.
- Funds having no choice in who provides investment advice creates a risk of poor investment advice being provided in time, due to lack of competition and lack of independence.
- The Strategic Asset Allocation (SAA) template that Funds would be expected to use is simple and high level (e.g. no option to express an attitude to active/passive investing). Funds would need to express their requirements of the Pool through the SAA and investment strategy combined.
- Border to Coast is already FCA approved.
- Risk of high costs in transferring illiquid funds if this is forced to happen too quickly, could a mechanism be found to avoid this.
- Border to Coast has already launched a UK Opportunities Fund that demonstrates capability in supporting local investing and related due diligence.
- The Border to Coast model already does much of what is proposed and the company's strategy already heads in the right direction, however some pools will have more work to do to catch up.

# Proposals - Boosting investment in localities and regions in the UK

- LGPS Funds to set out their approach to local investment in their investment strategy, setting a target allocation range and having regard to local growth plans and priorities.
- LGPS Funds to work with local public organisations, e.g. local authorities, Combined Authorities, Mayoral Combined Authorities, and Combined County Authorities to identify local investment opportunities.
- Purpose of pension fund is to pay future pension liabilities not to make specific types of investment to meet a Government agenda; real risk of undue influence on investment strategy or compromising purpose of Pension Fund.
- LGPS Funds to set out their local investment and its impact in their annual reports.
- Pools required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

# Considerations - Boosting investment in localities and regions in the UK

- What is the definition of “local” or “regional”?
- Local investing brings local benefits but also concentration risk and the need for specialist capability and capacity.
- Some Funds may want to directly manage their own local investments.
- Some Funds may want their money invested more locally than others.
- Some Funds may benefit more from utilising the capacity and expertise of a Pool and seeking to avoid geographical concentration risk.
- Some localities have more clarity / certainty around their local organisational and political environment (e.g. where Mayors already exist).
- The strength of the organisational relationships upon which developing local investment ideas/opportunities rely will vary locally/regionally.



# Proposals - Strengthening governance of Funds and Pools

- LGPS Fund Committee members would be required to have the appropriate knowledge and skills.
- LGPS Funds would be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
- Pool boards would be required to include representatives of their shareholders and to improve transparency.

# Considerations - Strengthening governance of Funds and Pools

- No forced mergers of LGPS Funds or Pools is proposed.
- Implementing the “good governance” review requirements is welcomed.
- Independent biennial reviews is welcomed but getting the capacity into the system to service these from a standing start will be a challenge.
- The Warwickshire Pension Fund meets many of the requirements already, e.g. having an Administration Strategy, but not all, e.g. having a senior LGPS Officer.
- The consultation asks about longer-term potential for pools to have a role in the administration of LGPS funds or for greater collaboration between Funds on administration issues.
- The need for LGPS Funds to be able to the Pools to account will become all the greater.
- Increasing the expectations on pension fund committee members (“training and skills”) will increase the commitment required and may make it harder to attract committee members.
- Member representation on Pool Boards is positive.
- Poor biennial independent review results could be a driver for Funds to consider mergers, or could be used to force mergers of funds.

# Hyper-links to consultation documents

- [LGPS Fit for the Future Consultation](#)
- [Pensions Investment Review Interim Report](#)
- [Pension Fund Investment and the UK Economy](#)