

# Driving the UK and LGPS forward through partnership

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- **Simplicity**  
Uncertainty of any kind drives costs higher. Simplification drives costs down.
- **Timeliness**  
Opportunity cost of capital means undue delay increases chances of investment being delivered elsewhere.
- **Segmentation**  
Creating a broad range of investible opportunities tiered by exposure and risk profile will maximise available capital.
- **Status**  
The UK's international standing has slipped. Reducing competitive tension in financing is leading to higher costs (investor return expectations).
- **Go Canadian**  
The Canadian model offers a proven way to drive increased investment into private markets whilst maintaining a world leading pension system.



“Show me the incentive and I’ll show you the outcome.”

Charlie Munger, former Vice Chair of Berkshire Hathaway

Government can drive UK plc forward by delivering a step-change in the policy environment.

The goal should be reducing execution, operating and regulatory risks of projects and initiatives. This will enable significant further investment from the Local Government Pension Scheme (LGPS) to strategic projects.

A “win-win-win” is possible for British society, the LGPS and scheme beneficiaries. LPPI, an LGPS pool, has shown successful execution is not only possible but already proven.<sup>1</sup>



<sup>1</sup> Please see the Appendix for more information about Local Pensions Partnership Investments.

## Five key points

### 1. Pockets of UK pension fund capital are embracing the right UK opportunities

Significant amounts of capital managed by the LGPS is seeking the right UK investments to back. Returns need to be fair and appropriate for the risk taken, but don't need to be excessive.

Government can make more projects investable by reducing execution risk for investors. There is a direct linkage between execution risk, in terms of certainty, costs and time, and the required return investors seek. Lower execution risk means more projects get financed at lower costs.

This is a win-win-win for British society, the LGPS and scheme beneficiaries.

### 2. Intersection of global and domestic forces is driving the agenda

There are multiple economic, financial and geopolitical reasons for UK pension funds to consider a more domestic agenda going forward.

Most UK pension funds need to pay benefits linked to UK inflation; assets that offer economic participation in UK inflation are therefore attractive.

We are also moving into a world that focuses on surety of supply ahead of cost of supply. This is a break from the last decades and is now of strategic importance to all nations. Many countries are developing industrial policies to adapt to this new world order.

### 3. Much more capital is available to invest in the “boring stuff”

Whilst technology start-ups make great headlines, their real-world impact (for example, jobs, economic growth, wealth distribution) and the investment case for pension funds is far less clear.

Things that may be optically “less interesting” such as wind farms, grid upgrades and flexible manufacturing facilities offer materially greater real-world impact to UK plc and are hugely more investible for the LGPS's £359.1 billion of assets.<sup>2</sup>

### 4. Government can unlock investment into strategic areas

The late Charlie Munger said: “Show me the incentive and I'll show you the outcome”. This is very relevant to this conversation.

This equally applies to disincentives; Government can remove disincentives that are blocking capital in supporting key strategic activities.

Supportive and thoughtful policy with a focus on reducing execution, operating and regulatory risk can unlock significant amounts of capital that can support the objectives of UK plc.

### 5. Proven route for success already exists

LPPI currently has 20% of its portfolio invested in the UK, the large majority invested in private markets where social impact is greatest.

LPPI and several partner LGPS funds created GLIL, the largest infrastructure investor within the LGPS. Other examples of LGPS leading investment into the UK include GMPF – also focussed in private markets.

LPPI has led true consolidation in its LGPS clients' asset management and decision making and can support investment across all major asset classes for public sector partners. If the whole of the LGPS was to be managed more in line with the Canadian Maple 8 pensions model, this could lead to an additional £16 billion of equity capital available for investment in infrastructure and many times this once leverage (debt) is added.<sup>3</sup>

<sup>2</sup> The Department for Levelling Up, Housing and Communities, 31 March 2023.

<sup>3</sup> Source: LPPI internal estimate based on raising all funds in the LGPS weight to Infrastructure from an average of 6% currently to 11% (same level as the Maple 8 weighted average allocation to Infrastructure).

## Investing in a growing and sustainable economy

There is an obvious need for investment across the UK to help the country's transition to a net zero, green energy future, to repair and improve infrastructure that may have been neglected in recent years and to address the needs of a rising population. There is also a need to rebalance the UK economy, both geographically and to ensure that we make more of what we need for our own security here in the UK. Given geopolitical events in recent years, it is reasonable to believe that we are in a period of deglobalisation. The pandemic, the Russian invasion of Ukraine and the behaviour of China in recent years make it difficult not to question the global economic model that we have become used to in recent decades.

The next UK government will need to govern with this in mind, steering the economy accordingly. In framing much of its outline policy as 'securonomics', the Shadow Chancellor, it seems to us, recognises that domestic and international trends are pushing in the same direction. We firmly agree with this view.

## How the Local Government Pension Scheme can help

The Local Government Pension Scheme (LGPS) invests to pay future benefits to the scheme members. This capital needs to be invested to deliver long-term returns with appropriate risks. There is scope to invest in assets that deliver both appropriate returns and broader societal benefits.

In order to simplify capital allocation, most organisations group assets into asset class "buckets". These asset classes are then defined in terms of broad characteristics such as expected return and risk profile.

Investment managers will then create portfolios of assets by mapping individual assets into the "buckets". This means that the capital available for any asset is driven by these allocations which are themselves driven by the broad, assumed characteristics of those assets.

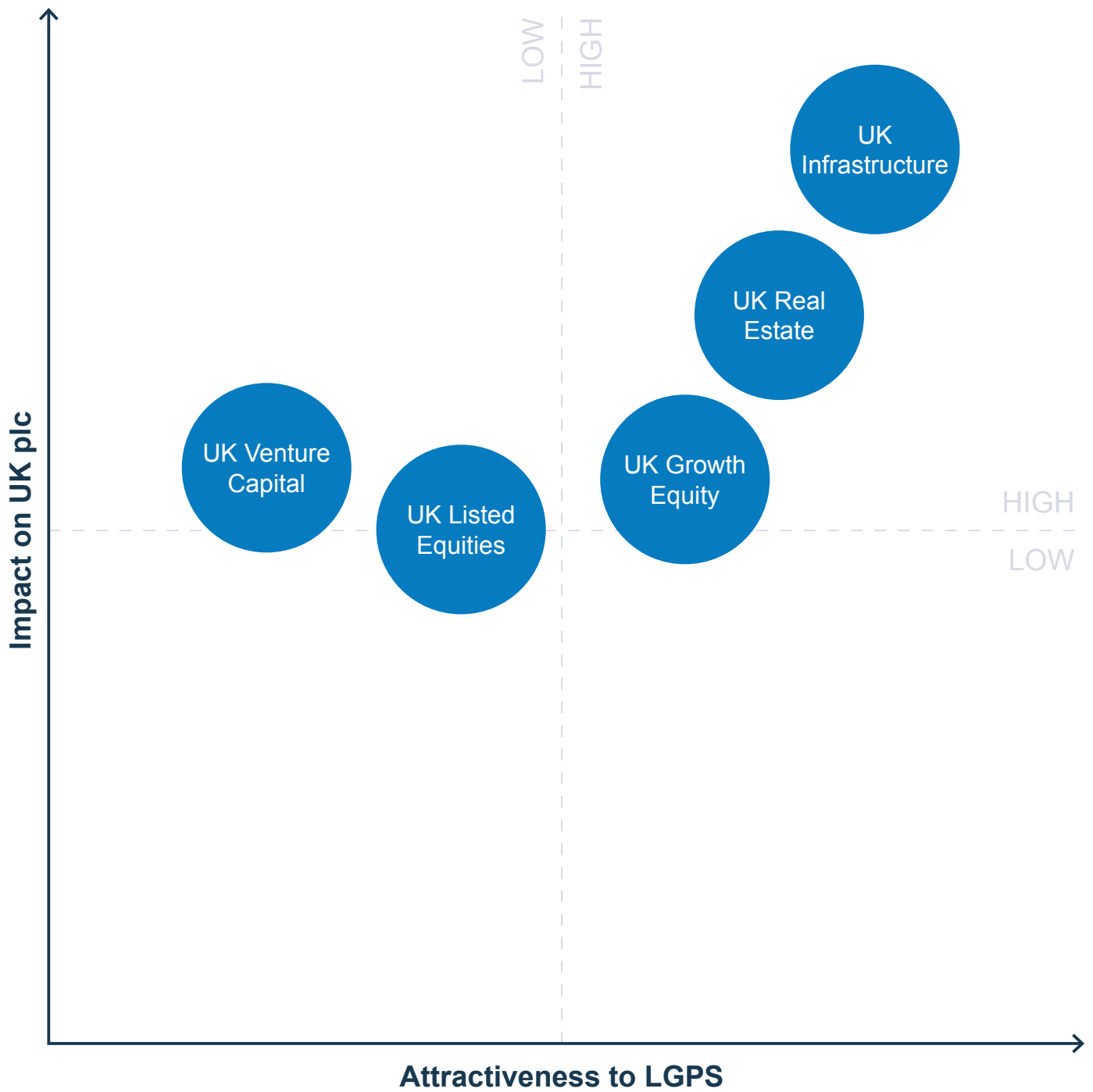
In simple terms, if assets meet the scheme goals well and have a lower-risk profile, portfolio weights are likely to be higher; if they are less well aligned and have higher risk then the inverse is true. Most UK pension schemes have long-dated liabilities that are linked to UK inflation. Accordingly, UK assets with solid growth prospects or a long horizon and a suitable risk profile are potentially attractive to UK pension fund capital.

*To go deeper on asset class definitions and characteristics, please see the appendix.*

The diagram below maps the major asset classes in terms of impact on UK plc and attractiveness to the LGPS. Please note, this is referring to UK assets (for example, UK Listed Equities, UK Real Estate) and not global or other regions. Infrastructure scores highly in both dimensions. We suspect this reasoning was partly behind the original 2015 LGPS pooling goal of increasing investment in UK infrastructure.

<sup>3</sup> Source: LPPI internal estimate based on raising all funds in the LGPS weight to Infrastructure from an average of 6% currently to 11% (same level as the Maple 8 weighted average allocation to Infrastructure).

**UK asset classes: Impact versus attractiveness**



## Canada leads the way

The approach taken by Canada to management of public pensions is internationally recognised as a leading example of ‘what good looks like’.

Since the late 1980s, the so-called Maple 8 have grown from humble beginnings to some of the largest and most sophisticated global institutional investors.<sup>4</sup>

They have also built a circa. C\$ 2 trillion capital pool to back the pensions of Canadians. This is equivalent to approximately 100% of Canadian GDP.

There are several key features that characterise the Canadian model of public pensions:

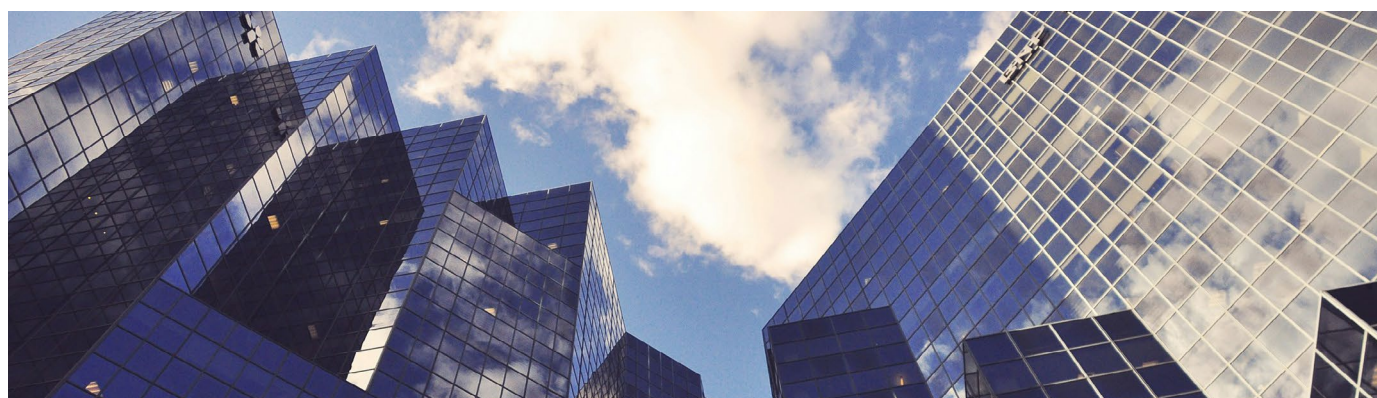
- Independent governance
- Large allocation to private markets
- Internal management
- Focus on long-term value creation

The table below compares key metrics for the Canadian Maple 8, the LGPS as a whole and LPPI.

Metric	Maple 8 (%)	LGPS average (%)	LPPI (%)
5yr Investment Performance (to 2022)	7.3	7.1	8.0
5yr Investment Performance (to 2023)	7.1	5.9	7.9
Allocation to Private Markets	48.0	20.0	41.0
Allocation to Infrastructure	11.0	6.0	14.0
Allocation to Real Estate	13.0	9.0	11.0
Allocation to Private Equity	17.0	5.0	6.0
Allocation to Private Credit	10.0	3.0	10.0

Past performance is not an indication of future performance. Investments can go down as well as up.

Investment performance indicated is based on net returns.  
Sources: Local Pensions Partnership Investments, Canada Maple 8 fund reports, Pensions and Investment Research Consultants, Eduard van Gelderen, International School of Management (France), February 2024



<sup>4</sup> The term Maple 8 is used to refer to the group of pension funds: CPPIB, PSPIB, CDPQ, AIMCo, BCIInc, OTPP, HOOPP and OMERS.

## Current challenges to investment

The government needs to attract capital and then facilitate its deployment. Private market capital opportunities often combine the return profile to attract investment with the economic impact to provide social benefits, and should warrant the government's focus over public markets.

A risk of private investments for pension funds, however, is in committing to projects which end up not being deployed, or achieving sub-market returns for the risk being assumed. One significant challenge to deployment in the UK is its planning system. The current system is complex with multiple layers of risk and uncertainty, which raises costs and makes the UK a less attractive place for investment.

Removing uncertainty makes an investment more attractive. It also increases both the likelihood of attracting long-term funding and the amount of capital available to be invested.

We also note the importance of a future government having a clear and continued policy priority on net zero, demonstrating leadership by moving away from extractive fossil fuels, supporting those investing in solutions by using policy to influence demand patterns, and focus their efforts on ensuring a just transition. Otherwise, our respective ambitions risk being at odds with each other, and both parties should be aware that the speed of our efforts (and successes) will be determined by the lowest common denominator.



## Conclusion

Pension funds can have a significant impact on investment activity in Infrastructure and Real Estate, given the huge scale of capital required in the coming years.

Within the UK, there are many ways for investment capital to facilitate progress. It is tempting for policymakers to want pension capital to invest in greenfield projects, due to their visible impact. These almost always have uncertain build times and risk on overall construction costs. Often this may not fit the risk appetite of some funds or portfolios, and it often tends to be focussed on individual projects.

A greater impact can be made behind the scenes by facilitating the deployment of large quantities of capital from pension funds with different economic risk and return aspirations. This should be across equity and debt, in low to higher risk buckets, each in turn releasing risk capital to pursue new investment.

This magnifying impact is often desired, with policymakers pursuing sponsored vehicles such as the Green Investment Bank in the past, but the core premise is that LGPS pension capital can provide that stimulus using existing investment channels.

The impact can be vastly improved when combined with other levers, such as a push for faster, simpler planning processes for strategic investments, or some fiscal stimulus providing better relative return versus overseas investments.

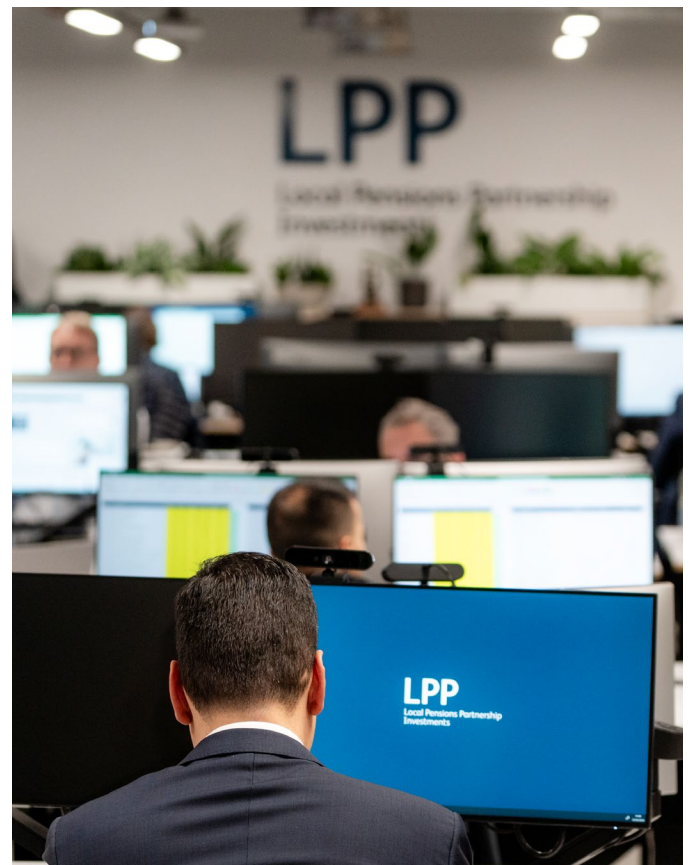
This risk capital is available in various forms across funds. The challenge for policymakers is to help attract this investment. Reduce the execution and delivery risk for investors and this will get more projects financed at lower costs, as well as providing investors with the certainty over the speed of deployment.

The counter argument applies.

Private capital deployment needs to assess political certainty, regulatory scrutiny, as well as reputational impacts of investment options as part of the overall economic risk versus return. LPPI manages these risks on an ongoing basis as part of the investment team diligence. The nuances of these forces can push capital away from core investment areas thereby driving higher economic costs for consumers and policymakers.

### With thanks to the following contributors:

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# Appendix 1

## About Local Pension Partnership Investments

Local Pension Partnership Investments (LPPI) is one of eight Local Government Pension Scheme (LGPS) pools and manages £25.7 billion invested across all major asset classes. We are differentiated from the other LGPS pools through our whole scheme management fiduciary approach (similar to the Canadian pensions model) and our specialisation in infrastructure investing.

From inception LPPI pooled 100% of client fund assets under the whole scheme management model, providing access to attractive investments in a cost-effective manner and increasing buying power to negotiate fund manager discounts.

In line with the original goals of LGPS pooling, LPPI has invested extensively in UK infrastructure since our inception in 2016. We have built a deep and capable team experienced in evaluating, transacting and managing a broad range of infrastructure assets. We are one of the founding partners and the Investment Manager of GLIL Infrastructure, a £4.1 billion industry leading infrastructure platform for LGPS funds and other like-minded investors such as the National Savings and Investment Trust (NEST).<sup>5</sup> We frequently partner with the largest global infrastructure investors on transactions.

Whilst we manage global mandates for our clients, we have significant exposure to UK assets. 20% of aggregate client portfolios are invested in the UK totalling £4.3 billion. We have the ability to manage complex mandates in both public and private markets, including Private Equity, Private Credit, Infrastructure and Real Estate.

In line with the Canadian model, LPPI's clients have a material allocation (25%) to Real Assets, and Infrastructure (14%) in particular.

## Sector leading performance

LPPI's investment strategy has not come at the cost of investment performance. LPPI was highlighted by Pensions and Investment Research Consultants (PIRC), in their Local Authority Pension Performance Analytics (LAPPA) report, as the top performing LGPS pool over five years (7.9% annualised returns) to 31 March 2023, as well as the top performing LGPS pool over five years (8.0% annualised returns) in the previous year's report.<sup>6</sup>

### Sector leading savings

LPPI is also delivering sector-leading annual net cost savings, saving £40.2 million in the year to 31 March 2023, taking its total net cost savings since the pool launched to £153.2 million. The Department for Levelling Up, Housing and Communities' LGPS consultation revealed that since the implementation of pooling the LGPS has achieved net savings of £380 million to 31 March 2022. LPPI's net cost savings for the same period end amounted to £113 million, equivalent to 30% of the total LGPS figure. This is despite LPPI's share of total LGPS pooled assets under management being 6%.

## A growing team of investment experts

Our investment team now has more than 50 people delivering the best private sector practices to public sector clients by creating a strong culture focussed on driving client outcomes with a long-term mindset.

<sup>5</sup> NEST's infrastructure allocation is managed by GLIL Infrastructure. GLIL's portfolio is managed by Local Pensions Partnership Investments.

<sup>6</sup> Source: PIRC Local Authority Pensions Performance Analytics Annual Review 2022-2023. Where referenced, past performance is not an indication of future results. Investments can go up as well as down.

# Appendix 2

## Asset class definitions

Asset class	Description
<b>Real Assets Equity:</b> Infrastructure	Investing in the equity capital of infrastructure assets, for example owning and operating wind farms.
<b>Real Assets Equity:</b> Real Estate	Owning physical property. This may involve development of the property or buying existing assets and then either operating them or letting them to others.
<b>Real Assets Debt:</b> Infrastructure	Lending to infrastructure companies and assets.
<b>Real Assets Debt:</b> Real Estate	Lending to owners of the property, normally with the underlying asset pledged as collateral.
<b>Corporate Equity:</b> UK Listed Equities	UK companies that are publicly listed, for example Vodafone.
<b>Corporate Equity:</b> UK Private Equity	Capital that is invested in UK private companies. Generally described as “investing in change”. This could be growth, restructuring or one of several other approaches. Generally supporting more mature or very mature companies.
<b>Corporate Equity:</b> UK Venture Capital	Investing in early-stage businesses and concepts. Many are more speculative, may be pre-revenue and likely not profitable currently.
<b>Corporate Debt:</b> Public Credit	Listed bonds of UK companies, for example listed bonds issued by Lloyds bank.
<b>Corporate Debt:</b> Private Credit	Loans to by non-bank lenders to private businesses, typically small and medium sized ones.
<b>Corporate Debt:</b> Private Venture Credit	Loans to newer, high-growth businesses made by non-bank lenders.

# Appendix 3

## Asset class characteristics

The table below presents a simple summary of our view of each relevant UK asset class with respect to attractiveness to UK plc and pension funds.

Asset class (UK)	Impact on UK plc	Attractiveness to UK pension funds
<b>Real Assets Equity:</b> Infrastructure	High	High due to long duration investment profile, income generating, moderate risk profile and inflation linkage. Ability for returns to be appropriate for risk taken.
<b>Real Assets Equity:</b> Real Estate	Moderate	High but current challenges in some areas such as non-prime offices.
<b>Real Assets Debt:</b> Infrastructure	High	Moderate to low. Other investors will happily own this debt when rated.
<b>Real Assets Debt:</b> Real Estate	Moderate	Moderate to low. Other investors will happily own this debt when rated.
<b>Corporate Equity:</b> UK Listed Equities	FTSE 100 – low due to material ex-UK exposure	FTSE 100 – moderate but more about the stock specifics
	Outside FTSE 100 – high due to high domestic focus	Outside FTSE 100 – moderate
<b>Corporate Equity:</b> UK Private Equity	Moderate but higher if focussed on strategic sectors	Moderate but return expectation needs to be aligned with risk profile.
<b>Corporate Equity:</b> UK Venture Capital	High if focussed on strategic sectors	Reduced due to high-risk profile and extremely unpredictable returns.
<b>Corporate Debt:</b> Public Credit	Low due to generally financing larger companies which tend to be more international	Moderate to low due to limited returns available over UK gilts.
<b>Corporate Debt:</b> Private Credit	Moderate as tends to be financing smaller and more domestically focussed companies	High due to increased return potential and ability to directly tailor terms, conditions and covenants.
<b>Corporate Debt:</b> Private Venture Credit	High if focussed on strategic sectors	Moderate if suitable transactions can be sourced and underwritten.

For more information about LPPI, visit our website or contact us to discuss your specific requirements in more detail.

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Authorised and regulated by the Financial Conduct Authority (Reference number: 724653)

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