



Ministry of Housing,
Communities &
Local Government

Open consultation

Local Government Pension Scheme (England and Wales): Fit for the Future

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Local Pensions Partnership Investments Consultation response

Response submitted 16 January 2025

About Local Pensions Partnership Investments

Local Pensions Partnership Investments (LPPI) is responsible for managing £26.7bn of LGPS fund assets¹, including 100% of assets on behalf of our three whole scheme management clients. LPPI is pleased to already work with our clients in line with the key requirements of the consultation – it is FCA regulated, provides investment advice, has internal investment teams and manages legacy and local investments.

Who we are

LPPI is an investment business. We partner with our pension scheme clients to invest their assets diligently, cost effectively and responsibly.

We were formed in 2016 as a collaborative partnership between two Local Government Pension Scheme (LGPS) funds seeking joint benefits from dedicated, cost effective advisory, investment management, and asset pooling capabilities. Our purpose, culture and strategy are driven by this heritage and the strong fiduciary responsibilities imparted by our founding shareholders.

We currently have three Local Government Pension Scheme (LGPS) partner funds, managing their assets through our whole scheme management model, by which we provide bespoke investment advice and investment implementation. We do this across a number of different investment vehicles – some of which are based on inhouse investing, and some outsourced. This model is a best practice, internationally recognised approach, versions of which have already been used successfully in global pension fund markets including Australia, Canada and the US.

Collaboration is central to our approach

LPPI has two other business partnerships.

We are the alternative fund manager for GLIL Infrastructure. This venture was set up in 2015 by two LGPS funds. GLIL now has six member funds, including three additional LGPS funds and Nest, the government-established defined contribution workplace pension scheme, with £4.1billion in committed capital. GLIL invests in a diverse range of assets including renewable energy, water and ports, trains, hospitals and schools.

We are also the investment manager for The London Fund. This was launched in 2020 as a collaboration between LPPI and the London-based pool, London LGPS CIV. The goal is to invest in assets such as infrastructure and housing, that deliver both financial value and social and environmental benefits to Londoners.

There is considerable alignment between us and our clients, embodied in our core values of partnership and collaboration, and in our focus on long-term sustainability². We think as an asset owner in acting as an asset manager and this dual focus informs how, where and what we invest in, on behalf of client pension funds, and how we act as responsible stewards.

¹ Source: Local Pensions Partnership Investments, as at 31 December 2024.

² When we refer to sustainability, this is in the context of the durability of strong financial returns through our investment approach, which focuses on helping clients meet their funding strategy goals through effective management of their assets and cash flows to meet future benefit payments.

Local Government Pension Scheme (LGPS) pooling

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

We agree that all pools should be required to meet the minimum standards outlined in the consultation. The existing pools are all at various stages of delivering against these minimum standards and we have summarised our own position in the table below.

We would like to see pools evolve through collaboration with those pools that have established these minimum standards already, avoid further unnecessary duplication and achieve considerable enhancements in a relatively short timescale.

	Minimum Investment Standards				
	FCA regulated	Internal investment Teams	Investment advice (SAA and TAA)	Discretionary management of legacy assets	Local investments
Local Pensions Partnership Investments (LPPI)	✓	✓	✓	✓	✓

Source: Local Pensions Partnership Investments

Given the recognised benefits of a consolidated LGPS, and the prohibitive cost and effort involved for some pools to meet these minimum standards, there is opportunity for administering authorities (AAs) to move pools and/or consider pool mergers.

We believe there is merit in targeting planning for a minimum pool size of £100bn. Achieving this scale will take time for any of the pools. Designing operating and governance models to support the changes necessary to achieve this scale alongside the minimum standards proposed, specifically including the requirement to maintain a local investment capacity, will ensure pools are aligned with the long term sustainability of the AAs without compromising the ability of the AA to consider complementary objectives for local economic growth.

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?

We agree that the AA should set high-level investment strategy and have the option/sovereignty to set high-level strategic asset allocation. These decisions would follow advice from the pool, which would implement the agreed strategic asset allocation.

This approach draws from best practice in international and domestic pension fund management. Local Pensions Partnership Investments (LPPI) adopted this model in 2016, and we have successfully collaborated with our clients this way since. Carefully implemented, the model ensures the pool engages with clients, so we have a full and deep understanding of their high-level investment objectives.

At major international peers it is commonplace for the client to focus on setting the high-level strategy. For example, Canada Pension Plan Investments and New Zealand Superannuation Fund are both assigned a simple "reference portfolio" of equities and bonds, along with a risk framework against which to manage the overall investment strategy.

Such a model could work in the LGPS and is compatible with other non-financial objectives such as any climate, social or local policies an AA may wish to pursue. We recognise though that this potentially moves a long way from the incumbent model, where some AAs have highly granular strategic asset allocation, and are used to much more detailed oversight of investment strategy.

It is worth making a comment on responsible investment. As currently articulated in the consultation, AAs decide their responsible investment preferences, which can range from general ESG consideration being incorporated into stewardship, to more specific preferences for impact. It is important that pools can determine the best way of implementing these responsible investment preferences as they will need to balance the needs of multiple AAs.

Additionally, we would advocate for AAs within a pool to work together, potentially through a responsible investment working group, to collaborate with the pool on an agreed set of general requirements. The pool could facilitate the formation of a working group and/or AAs could share preferences but not limits. This would allow a pool to consider these preferences alongside other AA objectives.

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

Whilst we and our partner AAs believe this approach is sufficient to meet their fiduciary duties, it is of course for the AAs to satisfy themselves in this regard. As noted in Question 2, the LPPI model draws from best practice in international and domestic pension fund management and ensures our partner AAs have sovereignty over the investment strategy and strategic asset allocation. LPPI has operated this model since 2016, and a further AA transitioned to this model in 2018.

We would argue that the AA's fiduciary duty is fundamentally satisfied by setting objectives around funding, contributions and investment return/risk, and calibrating and prioritising these to meet the benefits promises and affordability practicalities. Pools with discretionary mandates who can make investment decisions on behalf of their clients also have a fiduciary duty to act in the best interests of their clients. This is not outsourcing/delegating duty from the AA but is in addition to the AA's duty.

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

We are fully supportive of adopting a strategic asset allocation template like that outlined in the consultation, specifically we support the guidance to use a limited set of broadly defined 'asset classes'.

We recognise that some AAs currently make investment decisions using a much wider range of underlying investment strategies and products, but we would not support fragmenting further the asset classes suggested. This would create additional complexity, reduce scale, and distract the AA from its key role in setting outcome-based objectives.

We also support the use of a target and tolerance range. Tolerance ranges are important to allow for mark to market fluctuations, private market capital deployment timelines, and portfolio manager discretion related to market conditions.

Paragraph 36 of the consultation outlines that AAs could complete the template themselves or allow the pools to do so. For a pool to operate efficiently, its partner AAs should all share the same strategic asset allocation template/hierarchy. It is important that it is understood that completing the template should not extend to an AA unilaterally broadening the range of asset classes.

Should any changes be proposed, we would want to ensure that the number of asset classes remains largely unchanged.

We currently operate a similar strategic asset allocation template at LPPI, which our partner AAs adopt successfully. The key difference is that we have in place allocations to credit and fixed income, rather than private credit, credit, and government bonds.

Paragraph 37 outlines that cash in the strategic asset allocation template relates to cash managed by the pool. At LPPI we include cash managed by the pool and cash held by the partner AA for pension benefits, within the strategic asset allocation. We have developed with our partner AAs a framework for collaboration on cash management that ensures that liabilities from both pensions benefit payments and private market asset commitments are met.

To avoid introducing undue complexity, thematic preferences (responsible investment, local investment, etc.) should not form part of the strategic asset allocation template. Whilst there does need to be a way to consistently capture these broader dimensions, pools should not face multiple petitions and expectations for capital allocation, stewardship, and reporting from AAs on varying priorities.

5. Do you agree that the pool should provide principal 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?

Yes, we strongly advocate that pools should provide principal investment advice to its partner AAs. Integration of investment advice and investment implementation is a well-established model within fiduciary management arrangements both domestically and internationally and is the approach we take at LPPI through our Whole Scheme Management model. With the correct governance and incentive structures, pools are very well positioned to provide aligned and effective advice to partner AAs. Indeed, there are clear advantages of integrating advice and implementation through long term alignment and detailed knowledge of assets and liabilities.

Any challenges around conflicts of interest can be managed, specifically with pools being FCA regulated and needing to adhere to regulations, including strict compliance standards which require any conflicts to be identified, managed and disclosed (to the extent they are not fully mitigated).

We recognise the need for independent oversight and challenge of advice given by pools, which could be provided by experienced and qualified independent advisers and senior officers at the AA.

Regular (biennial/triennial) reviews of the pool could be performed by independent firms to also provide assurances. It is important that such reviews are focussed on the operational and risk controls of the pool and are not a second line of strategic asset allocation advice.

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

It is necessary for pools to be authorised by the FCA to be able to meet the stated aims of the consultation of providing advice and managing 100% of fund assets.

FCA authorisation ensures assets are managed by qualified professionals who need to act to a set of agreed exacting standards. For example, this includes 'fit and proper' test of key individuals involved in investment management activities and other senior roles, plus high standards of investment and enterprise risk, and compliance oversight.

FCA authorisation also means that all employees within regulated firms must adhere to the Individual Conduct Rules and breaching one or more such rules could have serious implications. This provides further reassurance to current and future clients that regulated firms employ qualified professionals who operate within a company culture that values and rewards good conduct.

The regulatory framework provides assurances to AAs that the pools managing assets for multiple partner AAs have appropriate control frameworks and a robust approach to risk and compliance.

7. Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Yes, as we believe that the true benefits of scale are achieved by transferring assets into the pooled vehicles managed by the pool. However, it is important that any transfer is done efficiently and in the best interests of the AA and its members.

This means working with each AA to determine a specific transfer plan that evidences the long-term benefits and a robust business case. This would include a view on alignment with investment strategy, strategic asset allocation, long term risk-return and costs.

The transfer itself can be delivered through several approaches, including stock transfers, natural recycling of capital (as stocks are sold or dividends paid out) or through a sales programme.

We also need to recognise that different AAs may have different requirements from their liquid investments from a responsible investment perspective. For example, they may have different exclusions that need to be discussed and agreed on how they can be accommodated alongside other AAs' requirements. We would advocate for the pool having the final implementation decision on responsible investment. This may mean the pool has one or more sub-funds underlying the liquid asset class bucket (i.e. equities) but it would be at the pool's discretion on how best to allocate to these to reflect differing AA requirements. This may include feedback from any relevant AA working groups as noted in Question 2.

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

At LPPI, we believe there are significant benefits from delegating all management activity for illiquid investments to the pool. The assets are then managed by experienced, well-resourced, and informed investment teams, providing comfort that the assets are being managed appropriately.

The model of the **Roles and Responsibilities** table (R&R-Figure 1) outlined in the consultation only works if all assets are managed by the pool for several reasons, including:

- The pool having full visibility of all investments, ensuring the characteristics of these are built into:
 - The analysis used to produce advice and recommendation as part of the strategic asset allocation, to deliver the client's overarching goals (termed "strategic asset allocation" in R&R-Figure 1).
 - The integrated asset allocation and risk management of a given partner AA's assets (termed "tactical asset allocation" in R&R-Figure 1).
- Cashflow management – our experience has taught us that asset level due diligence and oversight is required to maintain a complete picture of liquidity risk of a partner AA, so that we can ensure that sufficient

cashflow is always in place from assets to pay pension benefits each month (spanning “tactical asset allocation” and “cashflow management” in R&R-Figure 1).

- Removing the need for AAs to manage assets and the additional/ongoing resource cost for this.

It should be noted that the transfer of management of such investments does not necessarily require the transfer of all investments to a pool vehicle and, therefore, would not require legal transfer of ownership. Management of legacy³ illiquid investments can be done in a cost-effective way with a small overlay charge.

This approach mitigates concerns of high transition costs of illiquid assets and risk sharing on distressed legacy positions which may not be in other partner AA's interests.

LPPI has extensive experience of managing and resolving problems with legacy illiquid investments, making use of the full breadth of knowledge and experience across our portfolio management, operational due diligence, investment operations and legal and compliance functions.

9. What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds

In addition to the minimum standards required to attain the requisite regulatory permissions, pools will require sufficient resource capacity including investment and operational due diligence, alongside risk management and legal expertise, to undertake the initial appraisal to be able to effectively manage legacy assets. Pools will need analyst and portfolio manager level expertise and capacity to monitor and make decisions on underlying investments and complement this with the necessary operational and reporting tools.

This includes the need for initial upfront due diligence to fully understand the existing legacy portfolio of an AA, which will determine the course of action required for the legacy portfolio. This allows for whole portfolio visibility (assets held through pooled vehicles or on the AA balance sheet) to ensure strategic asset allocation advice is appropriate for the AA.

To deliver the requirements around tactical asset allocation and cashflow management set out under **Roles and Responsibilities**, pools will need a comprehensive understanding of the cashflows (expected and realised) from each legacy asset. This is to ensure:

1. Liabilities from legacy private market commitments can be met.
2. These liabilities are integrated into the overall liquidity picture so that pools can ensure pensions benefit payments can be met by an AA.
3. Overall cash exposure is managed as part of the wider tactical asset allocation process so that cash is not a drag on an AA's objectives or outcomes.

All these aspects require elements and expertise that LPPI has developed over time. We have considerable experience of managing AA legacy assets, including the legacy asset cashflows being integrated into the pool's liquidity management process. This is complemented by LPPI's tactical asset allocation process and our cashflow forecasting and management process, which is well established and oversees all assets of our partner funds. This process has been developed to be resilient to meet liabilities, and efficient to optimise investment outcomes.

³ It is also worth noting that, depending on the outcome of the consultation and any future directives for local investment, this management may extend beyond “legacy assets”, and pools may manage a small proportion of assets on a fund's balance sheet indefinitely. LPPI currently uses this model to efficiently implement the local investment objectives of our three partner AAs.

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

We support the timeline for pools (and AAs) to satisfy the requirements of the consultation. The LGPS has spent the last eight years developing pooling solutions but has not delivered enough on the significant cost saving, efficiency, and pooling opportunities. As outlined in Question 1, pools are at various stages of delivering on the requirements of the consultation. Consequently, several pools, and AAs, will find it difficult to build out the required resources and services within the time frame outlined. Our own experience highlights the challenges facing pools: whilst LPPI adopted the proposed model in 2016, it has taken several years to evolve the business to be able to effectively deliver the model.

This should not be seen as a reason to relax the time frame, but instead Government should continue to encourage pools to look at collaboration and/or pool mergers.

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?

There is clear scope to increase collaboration between pools, not least in certain areas of investment such as infrastructure. Even for pools that can deliver on the key facets of the consultation.

This is especially true where it is costly and inefficient to new build in-house capabilities. Direct infrastructure provides a working example of this. The creation of GLIL Infrastructure LLP, as a partnership between the Northern Pool and LPPI, has led to improved outcomes through direct investment in UK infrastructure with material cost benefits.

Real assets and private market asset classes such as infrastructure, real estate, private debt, and private equity could leverage this model to work with a wider number of pools.

We would add that the ability for pools to collaborate in this way is inhibited by current public procurement legislation. Options to address this include widening the ability to apply the Teckal exemption to any pool that is owned by AAs or widen/clarify the 'financial services exemption' to include any investment related service provided by the pools.

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?

This is an area the AAs are best placed to comment on. Whilst we would caution against areas such as finance or operations of the pool becoming shared services, it would seem a natural extension of the consultation for AAs to work together to deliver cost savings, efficiencies, and enhanced governance in administration. We would suggest that any collaboration does not have to be limited to AAs within the same pool, especially for areas such as training.

Local Pensions Partnership Administration (LPPA) is the administration subsidiary of Local Pensions Partnership (LPP), our parent company. LPPA provides administration services to 10 LGPS funds, seven fire authorities and one police force.

LPPA provides material benefit and cost efficiencies via pension administration collaboration and shared services. Importantly, LPPA already provides services to AAs who operate across different investment pools. LPPA welcomes the opportunity to continue providing services to AAs more widely than LPPI's client activity. There is no necessity, as our model shows, for an AA to seek the provision of both investment and administration from the same pool.

AAs share many challenges, including scheme complexity, staff resilience challenges, and investment in technology. LPPA's scale (currently c.700,000 members) has enabled significant investment in this area and material improvements in the member and employer experience, delivering a high quality, value for money administration service. LPPA manages pension administration on a shared service, cost recovery basis (via direct award through our public sector LGPS shareholders), sharing the benefits of collaboration across the LGPS funds that they provide administration services to.

LPPA also offers training across a variety of pensions administration topics to the LGPS funds they provide administration services to. They provide training to officers, councillors and pension board members, employers, and members on a wide variety of administration topics including:

- McCloud remedy
- Pensions Dashboard
- LPPA's internal Efficiency and Service Improvement Programme (ESIP) incorporating the delivery of process re-engineering and automation.
- LPPA's use of Artificial Intelligence to support the member and employer experience

Local investment

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

The Whole Scheme Management model at LPPI allows for investment in local communities as well as providing the framework for local investment. We collaborate with our existing authorities and build local investment sleeves when implementing their strategic asset allocation. We have a core portfolio run through consolidated investment vehicles and can complement this with bespoke local investment sleeves for each AA, managed by LPPI.

We would encourage Government to take a flexible approach to defining local investment. For many AAs there are good local investment opportunities within their region. However, a material number of AAs have concerns that this narrower definition of local will limit their opportunity set. We outline below three possible definitions of local:

AA local – within the geographic footprint and area of service provision of the sponsoring AA - pipeline, ticket size and returns are all likely to pose challenges within this footprint for some AAs.

Regionally local – wider definition that allows for overlap between AAs and caters for wider administrative boundaries and potentially reflects the pool's footprint.

Nationally Local – UK wide – encourages "crowding in" of LGPS finance for nation-wide projects and encourages collaboration in private markets (as outlined in Question 11).

Real estate is the most directly 'local' to individual AAs given single assets/properties can be developed and owned on a standalone basis and are clearly in a specific geographic location. These can span all areas of real estate, from commercial through living and onto other operational assets.

Infrastructure can be seen as more regional or national given it can serve a broader footprint (e.g. roads, wind farms and grid scale battery storage) or it is part of a wider development (e.g. rolling stock or shipping ports).

We believe the burden should be on pools to demonstrate how they would provide local investment, working with the AA on the definition that works best for them.

This would ensure smaller investment ideas are not overlooked, investments are not concentrated in a single geography and the best investment opportunities are always prioritised.

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?

There is good opportunity for AAs to work with their local authority (or appropriate body) to identify suitable opportunities for investment. AAs would need to ensure that they set an investment strategy that maintains fiduciary duty and is not purely a mechanism to deliver local growth plans.

We also believe that the work to identify suitable local investment opportunities should be conducted through a combination of the AA, the local authority and the pool. The pool should have a clear delegated role as the underwriter, final decision maker and manager of any investment. This would provide a more standardised and efficient process.

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 Investment Strategy Statement (ISS) provides a document in which to record the appetite for local investment, but it is useful that the consultation is clear that local investment does not form part of the strategic asset allocation.

AAs (including LPPI clients) who have set local allocations may perceive this activity as part of their commitment to responsible investment. This reflects that current guidance (on setting an ISS) confirms they may take these considerations into account alongside the financial considerations.

The experience we have at LPPI of collaborating with our clients to provide local investment, forms part of understanding their needs, requirements and investment objectives.

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

Yes, as per responses to previous questions, with all assets to be managed by the pool, including local investments, they will need to have the necessary in-house expertise and experience. This will be needed across asset classes, with local investments potentially spanning infrastructure, real estate, private equity, and private credit.

Performing due diligence and managing local assets requires a skill set that has much in common with broader asset management approaches and it would be inefficient to duplicate the resource requirement by leaving this outside the pool's remit.

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?

Different AAs invest locally for different outcomes, including social, economic, and environmental, coupled with the investment rationale for any such investment. This currently makes a standardised approach to reporting inefficient.

An alignment between AAs, as outlined in Question 2, would enable pools to report with greater consistency to their AAs. Nevertheless, differences between pools would remain and, therefore, focus should be on transparency to provide engagement between the members of the pension scheme and the assets invested in on their behalf.

There are several formats, tools and reports that can be used by AAs to report on local investment and the AAs, working with their pools, should consider the most appropriate way, which may not always be the annual report.

It may also be that MHCLG could consider producing guidance and a suggested range of generic metrics which save time, assist consistency and aid comparability.

Governance of Funds and Pools

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

We have previously highlighted our support for the SAB's Good Governance recommendations and continue to do so. In addition to contributing to the efficient operation of a pool, effective pool governance will be key to satisfying both fiduciary duty and responsible investment related outcomes.

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 agree that it should be a requirement for administering authorities to have a training strategy for pensions committee members and to report against the strategy.

We would encourage such strategies to be based on an assessment of the knowledge gap and reporting on the ways the specific knowledge gaps have been addressed, to ensure pension committees have the required level of expertise. Training policies should be published and set out the AA's approach to delivery, assessment and recording of training plans.

The role of chair could include (as it currently does for Local Pensions Boards) an onus on evaluating how successfully the training was understood by each member and evaluated along with an individual member's input to discussion and decision-making.

We also support adoption and publication of conflict of interest policies.

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

This is consistent with the SAB's Good Governance recommendations, and we support this concept.

We believe our partner funds have individuals each acting in a capacity that is similar to what is being suggested which has proved invaluable to an efficient and productive working relationship. Pools would need a clear point of contact at the AA, who has responsibility for supporting the AA in executing fiduciary duty, including helping support relationships between pool and AA committees.

If AAs cannot resource a senior LGPS officer, they should consider collaboration and/or consolidation to ensure they sufficiently address governance requirements.

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

AAs and their employers are best placed to respond to this 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?

Yes, these should include assessment after training and attestations from the chair/senior officer of capability of the individual committee members.

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

We are in broad agreement with the proposals.

The AAs will be best placed to comment in detail depending on the forthcoming work between the Government, SAB and TPR to build out the details of this process; we might suggest less frequent reviews would be preferable.

We would recommend the initial review is in depth, then subsequent reviews focus on 'changes' to previous reviews, or updates to action items.

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

Yes, as per our response to Question 19, pension committee members should have appropriate knowledge and understanding. This should include assessment after training and attestations from the chair/senior officer of capability of the individual committee members.

There is a need for on-going review and training given the nature of committee member turnover as councillors are elected.

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?

We agree and believe that AAs are best placed to address this, in line with comments made in response to previous questions.

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?

We understand that as AAs work more closely with their pool and take primary strategic asset allocation advice from the pool, in addition to the pool implementing the strategic asset allocation, they will want and need an independent person to support them, in addition to having a senior officer.

There are different approaches to this. Currently some AAs appoint an independent adviser whilst others have a non-executive investment committee. In all cases, it will be important that any individual or group of individuals, has the required experience and skill set.

Currently, there are a limited number of independent advisers who can fulfil this role across the large number of AAs in the LGPS so a framework that articulates key skills required and increased professionalism could attract advisers from outside the LGPS.

The role also needs to have a clear remit so that it is not duplicating the work carried out by the pool but is instead a voice of challenge and support to the committee members.

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

There are several ways to ensure AAs, in their capacity as shareholders, have a voice. A key route is through the pool company boards. We believe that best practice is for a pool company board to be made up of independent professionals appointed by shareholders. This is especially true for boards of FCA regulated firms, such as LPPI.

Shareholders as clients can best be represented via a joint committee or similar and, as shareholders, by having representation on the board of a holding company, which in turn is the sole shareholder of the pool.

This latter model is the approach currently adopted by LPPI, with shareholder representatives appointed to the board of LPP, the holding company of LPPI.

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

The AAs are best placed to address this question. Our experience to date is that members' views are expressed through their AA, who in turn, through their oversight of the pool, can express these views where appropriate.

Going forward, it could be possible for members to be represented as part of a joint committee or holding company board outlined in Question 27, but it would be down to the partner fund to determine the specific approach and rights of its members.

We should also highlight the Local Pension Boards as a sounding board for member views. They are already part of LGPS governance arrangements, and the statutory requirement for Local Pension Board members to have adequate knowledge and understanding should mean views reflect the scheme purpose, fiduciary duty, and pooled investment logistics.

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?

Consistent and transparent reporting on performance and cost is important for providing assurance over the quality of outcomes for AAs. To ensure comparisons are meaningful it is important that any such reporting has regard for different risk and return requirements and that comparisons are industry wide rather than limited to the LGPS.

Performance

Different AAs will have different requirements on funding and, therefore, will seek different returns outcomes. We also need to be aware of unintended consequences of peer group performance comparisons as this can create 'herding' and conflict with other mandates e.g. net zero.

To encourage greater distinction between strategy (a sovereign fund activity) and implementation (a delegated pool activity), and to encourage strategy at the right level, we believe AAs should report performance against a strategic asset allocation benchmark which seeks to compare actual outcomes versus those that might be achieved via a 'passive' market implementation. We note that this is not always straightforward, particularly in private market assets where 'market' benchmarks may not be available, however, proxies can be used and explained where this is the case.

Individual asset class returns should be reported against industry standard benchmarks.

Costs

LPPI uses Cost Transparency Initiative (CTI) templates to consolidate data and report on investment management costs for all managers used across its client portfolio, both in-house management and third-party fund managers. These details are provided regularly to clients to ensure accurate and transparent reporting of costs and to allow comparison of charges between providers. The CTI is an industry standard for institutional investment cost data which is supported by PLSA, LGPS SAB and FCA, amongst others.

It is also worth noting that there are existing industry reports such as CEM reporting and PIRC (e.g. The 2023/24 PIRC Local Authority Analytics Service Annual Review) that provide information at both the pool and AA level in areas such as performance, risk, and costs. These reports are reliant on pools and AAs providing their data and consequently are only as good as the data provided and the peer group involved.

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.

No.

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