Local Government Pension Scheme (England and Wales): Next steps on investments – draft response to consultation.

Q1. Do you consider there are alternative approaches, opportunities or barriers within LGPS administering authorities or investment pool structure that should be considered to support the delivery of excellent value for money and net outstanding net performance?

The Dorset Fund agrees that there are further benefits from pooling that can be realised through further transition of funds' assets to the management of their LGPS investment pool managers, and also through greater collaboration between the pools.

In the longer term, once the benefits of near full asset transition and collaboration between pools have been fully realised, we would support further investigation into the opportunities to deliver further benefits through the consolidation of the number of pools. Any such consolidation would need to be based on robust evidence-based analysis as the transition would be time consuming, costly and potentially detrimental to short term investment performance.

The major considerations relating to the consolidation of pools would be:

- evidence for the suggested minimum pool size and concern that a further transition to a higher minimum size in future would incur further costs and disruption
- limited further savings on listed markets with capacity constrained managers,
- a preference for collaborative options where scale could be delivered where appropriate without disrupting current governance arrangements
- the risks of seeking scale outside of the LGPS, including different approaches to Environmental, Social and Governance (ESG) factors
- shareholder v client model and the governance and financial risks associated with the different models
- a full understanding of the risks of in-house investment management as well as an assessment of the potential cost savings

We would also ask that the definitions of "pooled assets" and "assets under pooled management" are reviewed as all LGPS investment assets continue to be owned by the funds not by the pooling companies and assets (of either category) can benefit from pooling.

Q2. 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?

The Dorset Fund is comfortable with the proposal to set a deadline requiring administering authorities to transition the management of all listed assets to their LGPS pool by March 2025 and where funds have not met this deadline to explain the reason why in their Investment Strategy Statement – 'comply or explain'.

For information, management of the majority of the Dorset Fund's listed assets has already transitioned to Brunel Pension Partnership, and we anticipate that all remaining legacy listed assets will transition before March 2025.

Q3. 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 above?

The Dorset Fund broadly supports the characteristics as set out with the exception that "Pools should be actively advising funds regarding investment decisions, including investment strategies." The role of the pooling companies should continue to be the provision of suitable investment products for their client funds to implement their investment strategies – and any advice from pooling companies in setting those strategies introduces the risk of a conflict of interest.

Q4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

The Dorset Fund is committed to ensuring Pension Committee members are adequately trained, and therefore would welcome this proposal.

Q5. Do you agree with the proposals around 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?

The Dorset Fund supports the proposal for each fund to report in a consistent way against a set of broad asset class headings through their annual reports and statistical returns.

The Dorset Fund would not wish to see an additional requirement for funds to report net returns for each asset class against a consistent benchmark. Benchmarks and out performance targets are dependent on the level of risk agreed by Funds as part of their investment strategies. Publishing net returns against a consistent benchmark could therefore potentially lead to misinterpretation of the results and inappropriate comparisons between funds.

Q6. Do you agree with the proposals for the Scheme Annual Report?

The Dorset Fund supports the proposals for the Scheme Annual Report, subject to our comments regarding the use of consistent benchmarks in response to Q5 above.

Q7. Do you agree with the proposed definition of levelling up investments?

The definition of "levelling up investments" needs to be clearer so that it is capable of being shared with third party investment managers as part of portfolio specifications. The 12 medium-term levelling up missions appear very broad in their nature and therefore open to significant interpretation. As many of the investments would be made by third party investment managers this therefore potentially runs the risk of significant inconsistencies in whether investments meet the levelling up criteria or not.

Please also see our responses to Q9, 10 and 12.

Q8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

The Dorset Fund agrees that funds should be able to invest through their own pool in another pool's investment vehicle where their pool company determines that is the most appropriate way of meeting the investment strategies of their client funds.

Q9. Do you agree with the proposed requirements for the levelling up plan to be published by Funds?

The Dorset Fund does not support the proposal for Government to prescribe a target % figure against which funds should publish a levelling up plan as this may lead to a potential conflict with the over-arching fiduciary duty of the fund. In addition, we are concerned that the requirement to include a levelling up plan as part of funds' published investment strategy statements, including current levels of investments and future targets (subject to the clarification of the definitions as referred to in Q7), places additional burdens on funds with no clear benefit to their primary fiduciary duty.

Q10. Do you agree with the proposed reporting requirements on levelling up investments?

The Dorset Fund is concerned that the proposed reporting requirements as set out in the consultation document are a further unfinanced burden at a time when we were facing significant other governance challenges associated with implementing the McCloud remedy, preparing for the Pension Dashboard and Task Force on Climate-Related Financial Disclosures (TCFD) reporting. The extent of this additional burden is subject to having greater clarification on what constituted a levelling up investment.

It is likely that levelling up investments would cut across standard asset classes and therefore reporting would be additional to the broad asset class reporting requirements covered in Q5 above, and the need for a reconciliation between these two reporting requirements should be further considered.

Q11. 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 their barriers to investing in growth equity and venture capital for the LGPS which could be removed?

The Dorset Fund does not support the setting of target levels by Government for private equity or any other asset class as this represents a potential conflict with the fiduciary duty of the funds.

It is not clear what the objectives of this proposal are as there appears to be no requirement that the investments in private equity should have any UK component, nor is there any reference to other private market asset classes such as private debt and infrastructure? The Dorset Fund would welcome revised proposals clarifying these points - but without a specified target allocation.

The main barrier to investing in growth equity and venture capital can be a lack of availability of suitable investment opportunities with appropriate scale and risk for LGPS funds.

Q12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise with the Bank's expertise?

As noted in our response to Q11 above, the main barrier to investing in growth equity and venture capital is the lack of suitable investment opportunities of the appropriate scale and risk level for the LGPS. To the extent that the British Business Bank can utilise its expertise to identify and co-ordinate suitable investment opportunities, we would welcome future collaboration.

Q13. Do you agree with the proposed implementation of the Order through amendments to the 2016 regulations and guidance?

The Dorset Fund agrees with the proposed approach to implementation of the Order.

Q14. Do you agree with the proposed amendment to the definition of investments?

This Dorset Fund agrees with the proposed amendment to the definition of investments.

Q15. 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.

The Dorset Fund does not consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals.