The Wales Pension Partnership (WPP) welcomes the opportunity to respond to this consultation on the supplementary issues and draft regulations in relation to the "Local Government Pension Scheme (LGPS): Next steps on investments".

The WPP was established in 2017. It is a collaboration of the eight LGPS funds (Constituent Authorities (CAs)) covering the whole of Wales and is one of eight national Local Government Pension pools.

It was set up to deliver investment solutions that allow the CAs to implement their own investment strategies with material cost savings, while continuing to deliver strong investment performance to their stakeholders. There is also a strong desire to explore the ability of finding investment opportunities that could support the development and advancement of Wales, economically and socially, whilst meeting the CAs' fiduciary duties.

Being a Welsh pool for the Welsh LGPS funds and investing in and supporting Wales is therefore an important aspect of WPP's identity. Whilst we are always open to collaborating with other pools, where it is expected to benefit our constituent authorities, we wish to maintain our identity as a Welsh pool and ability to continue to support Wales.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

The WPP would note that there are already a range of alternative approaches to pooling being undertaken, which have all demonstrated benefits across governance, excellent value for money, outstanding performance and ability to access a range of asset classes.

Pooling in its current form continues to present opportunities for LGPS Funds to use their collective scale to develop innovative and effective investment solutions. This is reflected in the work plans for all the pools, regardless of their operating model. We believe that further opportunities will be developed under the current structure and that the current consultation will provide some momentum and focus for LGPS funds to achieve this.

One opportunity comes from the potential for specialists in particular asset classes and allowing other pools to benefit from this through accessing these capabilities, as noted in the consultation. When considering the aims of the consultation around levelling up and private equity investments, access to specialists in these areas may help in the development of investible opportunities, provider greater access and prevent LGPS funds potentially bidding against each other for the same investments.

The main challenges to pooling have been in relation to illiquid and non-listed assets. The pools, including the WPP, have all been working to develop solutions to these asset classes but some barriers continue to exist that has slowed progress. A prime example would be in Real Estate, where careful consideration is required around transition costs and tax implications for transitioning assets or constructing pool solutions. As the WPP works to launch a Real Estate solution, these issues have posed a significant challenge to making a solution financially viable for our CAs. Any assistance government could provide in helping overcome these barriers would be much appreciated.

A further barrier is in relation to the development and structuring of investible opportunities that have the right balance of risk and reward. The initial consultation on pooling was focussed on providing better access to infrastructure investments. While LGPS allocations to infrastructure have increased in recent years this is an example of an asset class where further opportunities could exist. In particular, in light of the focus of the current consultation on levelling up and private equity, support from government in helping to develop and create investible opportunities would increase the potential for greater pooling, aligned to the aims of both the funds and the aims of government.

Question 2: 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?

We are uncomfortable with the proposal to set a deadline in guidance requiring authorities to transition listed assets to their LGPS pools by March 2025. Effectively, we believe that this would result in a 12-18 month transition timeline once any new guidance comes into force. This would not be practical for the WPP for a number of reasons, including cost to the CAs and the practicality of setting up new sub funds in such a short timescale. We believe that better guidance would be for Administering Authorities to transition suitable assets as soon as practically possible. Strong progress has already been made to date in transitioning listed assets into the WPP's ACS and we offer a wide range of fund solutions within liquid assets to meet our CAs') needs. We are therefore in a strong position to assist our CAs to transition suitable assets into the pool at the right time, to continue to achieve the targeted benefits of pooling.

As of 31 March 2023, the WPP has pooled c.70% of its overall assets, breakdown as follows:

- Equities – 34%
- Fixed Income – 13%
- Passive – 23%

The CAs of the WPP have collectively procured BlackRock as the provider of passively managed solutions. These therefore remain outside of the ACS, but the WPP does maintain some oversight of this arrangement. The fee savings achieved through this collective procurement exercise are significant, and there is no reason to believe that moving these holdings within the ACS of the WPP will achieve further savings. In fact, it will increase costs to CAs, in terms of transaction costs and they will also incur the costs of the ACS operator on these assets. We therefore do not believe that it would be correct to mandate the movement of these assets inside the ACS. However, the passive manager is under regular review to ensure it offers the most suitable and cost-effective solution for the CAs.

Guidance is also required regarding solutions required by only a single CA that are not currently offered by the WPP. For example, some CAs may hold investments necessary for implementation of their current strategy that are not used by or available to others and it may take longer for these to transition. If so, the timeline for setting up new investment solutions can take c. 2 years, meaning the 31 March 2025 deadline will not be achievable.

Question 3: 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 described above?

No. Existing guidance is sufficiently prescriptive and it would be inappropriate to prescribe a particular model for pooling.

Within the process of the current 8 LGPS pools being set up, a range of approaches and operating models have been developed. There are two main categories of approach:

LGPS owned pool company – where a pool is structured as an FCA regulated entity which is owned by the underlying administering authorities. The pools under this approach will have responsibility for the design and set up of all the investment solutions offered to their member funds and may or may not have in house investment management capabilities but will be responsible for selection and monitoring of any third party managers.

LGPS governed pool with rented operator – where a pool is formed of a joint committee representing the underlying administering authorities. The committee has responsibility for the selection and monitoring of a rented operator who sets up a series of investment solutions which the member funds invest through. The selection and monitoring of third party managers is the responsibility of the operator with the pool authorities providing oversight and direction on the requirements of the investment solutions needed for each fund to implement their investment strategies.

Within the consultation, the government appeared to set out a clear preference for a certain for the "LGPS owned pool" approach, set out above. The WPP falls within the "LGPS governed pool with rented operator" approach.

We do not agree with the government promoting a single model of pooling. We firstly believe that the range of approaches to pooling that have been developed has led to significant innovation, which a single model would stifle. We also believe that there is not yet enough of a track record built up to clearly point to one model being more successful than others.

WPP's approach (third party operator and Investment Managers appointed by the operator) has significant benefits including the ability to review and replace the operator and for the operator to replace underperforming investment managers (without the conflicts that may arise if investment management is part of an owned pool company).

WPP's approach has resulted in great success in achieving cost savings and a wide range of benefits for our CAs.

The fee savings achieved by the WPP have been significant. This has included those achieved through the joint procurement of a passive management provider. However, across our range of active funds, fees have also been reduced for our CAs. This has been achieved both through the pooling of assets gaining greater buying power with third party service providers and investment managers, and through the use of an investment manager with scale and expertise in building pooled multi-manager funds, as are commonly used across the pools. This has meant that the primary Investment Manager and Investment Advisor appointed by the Operator, Russell Investments, has a large asset base, in addition to the assets it manages on behalf of the WPP, that it uses to negotiate significant fee reductions from the underlying investment managers that they appoint. Total fees saved to end March 2023 are £32.7m, net of costs.

The WPP has also set up a wide range of investment funds for our CAs, across a significant number of asset classes. Our liquid investment funds are a range of blended manager sub funds. a number of funds that invest in ways that already support the government's levelling up agenda, such as Private Equity and Infrastructure sub funds with explicit UK target allocations. The WPP is now considering Real Estate options. The range of investment funds set up by WPP have also seen some very strong performance with around half of the ACS sub funds outperforming their benchmark over the periods since inception to March 2023, some considerably so. Given the well documented difficulties in generating sustained outperformance in active management, this represents a significant success for the WPP.

The process of developing new investment solutions that the WPP has adopted has also seen material successes through input and compromise from our CAs on what they require from the sub funds. We have found that being part of the design and formation has then led to significant buy-in from our CAs through their investment into these funds.

We have achieved this collaborative approach through a strong governance structure which includes the Joint Governance Committee and other governance committees (such as the Officer Working Group and Responsible Investment sub-group) that have representation from all CAs. These groups feed directly into the fund design process with our investment Manager, over a number of design stages, removing any issues of misinterpretation of CA requirements by the pool.

We believe that our approach provides the WPP and its CAs with greater ability to hold our service providers to account. For example, if our service providers underperform, e.g. the operator appointed investment manager producing consistent underperformance, the operator is better able to retender that contract and make a change, than if it were inhouse staff making those investment decisions. Similarly, the operator appointed Investment Manager is able to replace under-performing sub-managers in the multi-manager sub-funds it manages.

We do not agree with the suggestion in Paragraph 31 of the consultation that pools should have a greater role in advising funds regarding investment decisions including investment strategies. This would result in conflicts of interest for pools between pool solutions and the most appropriate solution for each fund. Each administering authority should take independent advice on investment strategy that is appropriate to its particular liabilities taking account of factors including its cashflow requirements, pace of funding and agreed risk appetite.

We also do not agree with funds aligning their investment strategies. We strongly believe that all funds should develop their investment strategy based on their own specific circumstances and requirements and any pressure to align to others in a way that moves funds away from their optimal investment strategy can lead to material financial risks.

Finally, we also believe that greater evidence is required regarding the optimal scale of a pool being £50bn-£75bn in assets under management. We do not believe the report offered within the consultation document provides this. The costs of merging pools to achieve this scale is likely to be significant and should only be undertaken with strong evidence that the benefits will justify these costs. Wider factors also need to be considered, such as the impact of a pool having a larger number of funds to provide solutions for.

We also raise the challenge having a larger asset size would present to investing in smaller opportunities. For a larger pool, it will be more difficult to justify spending time on the due diligence for small scale investments, as they will represent a smaller share of the pool's assets under management. Not only will this reduce a pool's investment opportunity set, but many investments that will meet the government's Levelling Up agenda likely to be relatively small. This means larger scale pools may also pose a threat to the LGPS's ability to contribute towards Levelling Up.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

We support a requirement to develop formal training policies and increase the level of training provided to pension committees. However, we do note that many administering authorities already have training policies and extensive training programmes in place, but increased focus on this area across the LGPS is likely to beneficial. We also encourage further clarity on the purpose of any training, the level of knowledge that is to be achieved from this and what form this training will take.

The WPP already provides a wide range of training to its stakeholders within the CAs which often forms a part of their formal training plans. The WPP has its own training plan which includes quarterly training sessions to Officers and Joint Governance Committee members, these training sessions are also often extended to individual pension committee and pension board members and are very well attended. The WPP also has an induction training programme I place for new Joint Governance Committee members. We work closely with the CAs to understand their requirements, in terms of what training topics should be covered and the medium in which they should be delivered, ensuring maximum engagement levels. This can be adapted and increased to our CAs' needs when required, so support them in meeting any potential new requirement.

Question 5: Do you agree with the proposals regarding 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 WPP believes in and supports the concept of transparency within the LGPS and aim to incorporate this into all of our activities. Increasing the detail of reporting will certainly provide a more transparent picture of LGPS investments. There should be a consistent approach to reporting across all pools.

However, this has the potential to create significantly more work for pensions officers within funds, who are already stretched in their workload.

Pools can and should assist their funds as far as they can in the production of this reporting, however this will again lead to increased workload for pools, and likely incur costs.

We therefore firmly encourage the inclusion of LGPS funds and pools in the designing of any reporting requirements. This way, feedback can be provided on the likely workload impacts of the various levels and methods of reporting considered.

Question 6: Do you agree with the proposals for the Scheme Annual Report?

The WPP is supportive of increasing the level of reporting and transparency within the Scheme Annual Report. However, we reiterate the importance of ensuring this does not incur materially increased workloads and costs on funds and pools. Consistent reporting across all pools will make the production of Scheme Annual reports easier. Funds and pools should be invited to provide input to the designing of any reporting requirements.

Question 7: Do you agree with the proposed definition of levelling up investments?

We are supportive of most of the proposed definition. In particular, we agree that investments across a range of asset classes, and throughout the UK, which have a meaningful impact on the levelling up missions should count towards the proposed target, including any local and impact investment. It provides funds with greater flexibility to find suitable investments that meet their pension committees' fiduciary duties, as the consultation confirms remains a requirement.

However, we do challenge the targeting of the specific 12 levelling up missions noted in the consultation and set out in the Levelling Up whitepaper. These are the current government's missions and may change over time, especially as governments change. Any changing of these missions would create significant uncertainty and severely hamper a fund's ability to invest for the long-term. This would likely harm investment returns and the impact funds can have on levelling up. A set of more universal and long-standing objectives, such as the United Nations Sustainable Development Goals, may be more suitable when applied to the LGPS.

The WPP have made a significant investment in a project to develop wind farms across Wales which supports the levelling up agenda. We also continue to appraise any opportunities that arise.

We are supportive of the focus on newly originated assets, as this typically allows funds and their managers to better structure the transactions, secure better returns and deliver social and economic impact. We note, however, that new origination has always been the preference of many managers and would urge the government to consider whether there are actions it could take to facilitate the supply of new opportunities. We believe that actions such as streamlining planning rules, transferring risks that are hard for the private sector to finance and investing in education and skills could really help.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

We see a key benefit of this being that if another pool has a suitable solution in an area that the WPP does not, being able to invest in that other pool's solution means the WPP will not need to spend time and effort on developing its own solution.

However, the process of our CAs needing to invest in another pool's solution through the WPP could lead to structural challenges in the following ways:

- Potentially unnecessary additional layers of fees which is counter to the aims of cost savings and efficiency gains,

- Capacity constraints on products focussed on non-listed or illiquid markets,

- Misalignment of investment solutions with objectives where solutions were designed and created with a planned investor base at outset,

- Misalignment of funds' investment strategies where there is an increased level of separation of implementation decisions with funds.

However, we understand the WPP's role would reduce the risk of CAs picking or choosing elements of different investment solutions across the pools which they would like to access and creating unwanted competition between pools.

We would also like to understand the due diligence requirements that would fall upon the WPP in setting up a solution to invest through other pools. For example, we would anticipate that WPP will need to undertake due diligence on the other pool's solution to ensure this is suitable and that WPP would be held legally accountable if an issue in that solution arose.

Finally, the ability of to invest in other pools' solutions may lead to an unintended consequence of slowing innovation within the pools. There may become a tendency to wait for other pools to launch solutions, rather than pools developing their own. This would reduce the very positive aspect seen in pooling so far of pools crating different and innovative solutions to problems and being able to learn from one another's experiences.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

As stated earlier, we believe in and support the concept of transparency within the LGPS and aim to incorporate this into all of our activities.

Whilst the WPP is not an LGPS fund, we again encourage the inclusion of LGPS funds within the designing of any requirements regarding the setting and publishing of a plan to ensure it does not lead to a notable increase in pensions officers' workloads.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

In addition to our answer to question 9, we also encourage the inclusion of LGPS funds within the designing of any reporting requirements to ensure it does not lead to a notable increase in pensions officers' workloads.

Question 11: 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 there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

No, we do not believe that any mandated targets should be set by Government. Each administering authority has a fiduciary responsibility for paying pensions and therefore should have freedom to decide what investment strategy (including asset class mix) required to meet its particular liabilities taking account of its specific cashflow requirements, liabilities, funding levels and risk appetite. We believe that the setting of a Fund's investment strategy and strategic asset allocation should remain within that Fund's control and be based entirely on its own position and requirements.

We also seek clarity on the types of investments that would fall within this consultation's definition of "private equity".

At the WPP, we are implementing solutions for our CAs to invest in across a wide range of private markets asset classes, including private equity. As part of this, we aim to ensure that some of these investments are directed towards investment opportunities that support our local economy, which aligns to the government's Levelling Up ambitions in a way that is aligned to our CAs fiduciary duties.

The challenges we foresee to investing specifically in venture and growth capital are the level of risk posed by these asset classes and the scale of opportunities, given the size of investment proposed.

On risk, whilst over the long-term these asset classes have historically had some periods of very strong performance, they can be extremely volatile and can incur significant losses. A large allocation may therefore not be suitable for LGPS funds and their aims of paying pensions whilst keeping employer contribution rates stable and affordable. Some form of risk sharing with the government may help in this regard.

On scale, venture and growth capital investments tend to be relatively small in size, given these are typically investing in smaller companies. It is therefore likely to be challenging to invest such a large value of assets into these areas whilst ensuring funds and pools are only investing in the best opportunities and not bidding prices up, leading to lower future returns. Here, pools and funds must be allowed to invest across the full spectrum of types of funds and regions, and investments made over a long period.

We also require further clarification on whether the potential requirement of 10% of assets is to be invested within the UK or not. Whilst the wording of the consultation does not state this, the discussion is largely in regard to boosting the UK economy.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

The WPP is supportive of the amendment to legislation that may currently inhibit the ability of pools to work with third parties with expertise in areas of interest to the LGPS, including the British Business Bank. Any increase in investment options to specialist knowledge and experience is expected to lead to better investment outcomes and a greater ability to meet any potential minimum investment requirements.

However, it will become incumbent on pools, and funds where they may investment directly, to perform adequate due diligence on investments with the British Business Bank, as they would do with any investment. As the British Business Bank does not operate as a traditional private equity investment management firm does, this may be a difficult and time-consuming process.

It is also worth noting that funds and pools already have access to a wide range of experts in private equity investing within the private sector investment management industry. Pools and funds will need to remain adequately diversified across a wide range of managers, funds, regions, and vintage years to help manage the relatively large risks of this asset class. This is particularly important if the preference is for venture and growth capital, which are traditionally very high-risk investments. This means that it may be unlikely to lead to a significant increase in assets flowing to the British Business Bank.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

We are supportive of the proposed implementation of the Order through amendments to the 2016 Regulations and guidance.

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

We do not have any comments regarding the proposed amendment.

Question 15: 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 foresee any particular groups benefiting or being disadvantaged by these proposals.