



29 September 2023

LGF Pensions Team
Department for Levelling Up, Housing and Communities
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Dear LGF Pensions Team

Our core objective, as 11 Administering Authorities ('Partner Funds') and as a Pool ('Border to Coast'), is to ensure sustainable and affordable payment of the pensions of our collective 1.1 million LGPS members. We welcome this consultation on the future of the LGPS and consider that it is an important contribution to how we can collectively build on some of the good practice that has evolved across the LGPS since 2016.

In 2018, Border to Coast began managing investments on behalf of its 11 Partner Funds, who are both shareholders and customers. Recognising our partnership, we came together with an agreed set of principles that continue to guide how we work together. Guided by these principles we are delivering against Central Government's original pooling policy objectives:

- Over £40bn pooled through Border to Coast, with clear plans to increase this in the years to come;
- £75m of net cost savings had been delivered to 31 March 2023, with expectations to increase this to £367m by 2030; and
- increased Partner Funds' ability to invest in a wider range of assets – this includes a £12bn private markets programme covering private equity and infrastructure, which is delivering growth capital in the UK and across the globe.

Indeed, research into value for money by asset management data company ClearGlass Analytics, ranked Border to Coast number one in its efficiency scheme index of over 1,000 pension schemes globally¹. The analysis showed Border to Coast's leading position is due to its scale, governance and blend of internal and external management.

Border to Coast adds significant value above and beyond the original pooling objectives as a centre of expertise. A key component of this is our in-house investment capabilities – which research consistently highlights as a key element of driving value for asset owners²³. We are collectively developing innovative and effective investment propositions – such as 'Climate Opportunities', which is delivering investment to drive the transition to Net Zero. Our collective scale and common approach to responsible investment also increases our influence as an active steward – whether on executive pay, climate change, or on driving standards in disclosures to support investment decision-

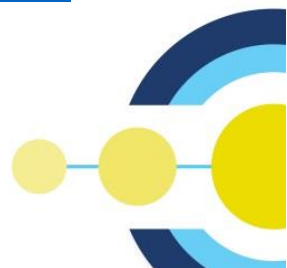
¹[UK: The case for pooling | Country Report | IPE](#)

² <https://theconexusinstitute.org.au/wp-content/uploads/2023/03/Does-Size-Benefit-Super-Fund-Members-24-March-2023.pdf>

³ <https://cdn.northerntrust.com/pws/nt/documents/asset-servicing/changing-tide-whitepaper.pdf>

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making and to enable us to effectively hold company management to account. The benefits of in-house investment expertise is clear⁴.

While significant progress has been made, our evolution continues. We recognise the need to review and adapt how we operate to reflect both our individual development and to meet the various challenges that may impact us in pursuit of paying pensions in an affordable and sustainable manner.

We would welcome the opportunity to discuss any part of our response in more detail.

Chris Hitchen
Chair, Border to Coast Pensions Partnership

Councillor Doug McMurdo
Chair of Border to Coast Joint Committee
Bedfordshire Pension Fund

Councillor Giles Archibald
Cumbria Pension Fund

Councillor David Sutton-Lloyd
Durham Pension Fund

Councillor Paul Hopton
East Riding Pension Fund

Councillor Eddie Strengeil
Lincolnshire Pension Fund

Councillor George Jabbour
North Yorkshire Pension Fund

Councillor Jayne Dunn
South Yorkshire Pension Fund

Councillor Nick Harrison
Surrey Pension Fund

Councillor Jill Ewan
Teesside Pension Fund

Councillor Pat Hay
Tyne & Wear Pension Fund

Councillor Christopher Kettle
Warwickshire Pension Fund

⁴ https://www.researchgate.net/publication/301677602_In-House_Investment_Management_Making_and_Implementing_the_Decision
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LOCAL GOVERNMENT PENSION SCHEME (ENGLAND AND WALES): NEXT STEPS ON INVESTMENTS

SUBMISSION SUMMARY

Asset pooling in the LGPS

- a) The purpose of the LGPS is to pay pensions in an affordable and sustainable manner. As such, any proposals addressing the future of the LGPS should consider the broader context in which it is operating – this includes increasing regulatory complexity, talent challenges, and knowledge capacity across the sector. We highlight the centrality of good governance in delivering better outcomes and would welcome progress on the response to the Good Governance review.
- b) Scale can deliver significant benefits, and we see no significant technical barriers to increasing scale in the pools. However, for scale to succeed it must be accompanied by appropriate and effective governance, a common vision and culture, and address the complexity of investment strategies and customer needs.
- c) We support the principle of Partner Funds having a plan to transition assets to their pool. Further clarity is needed on the treatment of passive investments and legacy illiquid assets to ensure unnecessary duplication and costs are avoided. Existing guidance allowing 5% of assets to be invested outside the pool should be retained.
- d) We welcome the approach to pooling set out in the consultation but caution that guidance should avoid prescription. This may stifle innovation and could hinder Partner Funds and pools from responding to changing circumstances.
- e) Training requirements must be part of a successful system where decisions are made by the right people, with the right level of knowledge, at the right time. The training requirements for membership of Pension Committees should match those currently in place for Local Pension Board members.
- f) We support the standardisation of reporting requirements but highlight the limitations of measuring pooling performance against net savings. Standardised reporting on investment returns without the context and detail on the underpinning strategy and risk appetite could be highly misleading and drive short-termism. We provide alternative suggestions to measure success.
- g) The Scheme Advisory Board needs to be appropriately resourced to undertake the reporting required of it, which itself requires simplification. We note the broader concern about increased reporting requirements on the LGPS, associated costs, and the volume and complexity of information presented to scheme members.

LGPS investments and levelling up

- h) We agree with the Government's proposed definition of levelling up investments. The existing flexibility to Partner Funds to invest up to 5% outside the pool should be maintained given the local and specific nature of these investments.

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- i) The objective of each Partner Fund is to generate the appropriate risk adjusted returns to ensure they can operate the LGPS in an affordable and sustainable manner. Where ancillary objectives can be co-delivered without impacting these returns or increasing risk, this is to be welcomed. However, LGPS assets should not be used with the primary objective to implement Government policy.
- j) Reporting on investments meeting the levelling up definition should be through the principal asset class to ensure risk-adjusted returns are considered (and reported) consistently.
- k) Collaboration is a strength of the LGPS and should be supported, but there are specific challenges to proposals to allow funds or pools invest in another pool's investment vehicle. This includes governance structures, balancing the needs of shareholder and external pool customers, cost modelling and managing demand. Managing these on a pool-to-pool basis would be easier than via individual funds.

Investment opportunities in private equity

- l) Border to Coast already has a significant private markets programme representing c. 20% of Partner Fund assets. The consultation's reference to private equity is unnecessarily narrow and could have unintended consequences; we suggest a broader definition of private growth capital, alongside confirmation that this can be global in nature.
- m) Increased UK investment can be supported through appropriate guarantees and policy certainty. Consideration should also be given to the capacity of the system to absorb capital and potential impacts on pricing.
- n) The British Business Bank and UK Infrastructure Bank may be able to support LGPS pools to identify ventures that meet their investment criteria. However, given a key objective of pooling was to reduce fees paid by funds, vehicles provided by these public institutions should be on a cost-only basis.

Improving the provision of investment in consultancy services to the LGPS

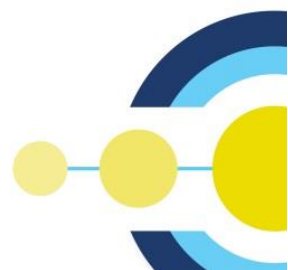
- o) Our 11 Partners Funds already take this approach and welcome its consistent application across the LGPS.

Updating the LGPS definition of investments

- p) We support this approach.

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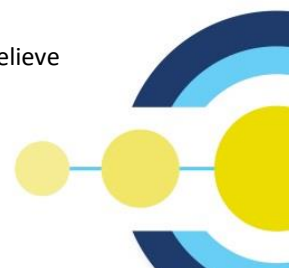
1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

1. We recognise that the ecosystem in which the LGPS operates is changing and it is important to acknowledge and adjust to this to ensure we can continue to collectively deliver for LGPS members. This includes:
 - 1.1. The increasing regulatory and governance complexity and burden on individual Funds.
 - 1.2. The maturing (and increasing move to buy-out solutions) corporate DB sector reduces both the experience in, and wider sector support for, open DB schemes. This will reduce the pool of experienced talent the LGPS has traditionally recruited from. The PLSA research, "LGPS: Views from inside the scheme"⁵ highlighted the challenges individual Funds have in recruiting the right staff.
 - 1.3. With the decline of open DB schemes, and the significant growth in DC schemes, a decline in the knowledge capacity of the wider sector (e.g. investment consultants) to support the open DB schemes and LGPS in particular (and their specific investment requirements which reflect the nature of the supporting sponsor covenant).
2. Going forward, these issues can be addressed through:
 - 2.1. Engaged and informed Pension Committees and Local Pension Boards, supported by high quality Statutory and Pension Officers, with the right resources and support to develop and manage the oversight of their investment strategies.
 - 2.2. Well-resourced pools, with the in-house investment capabilities to support the development and implementation of the investment strategies of their Partner Funds. As centres of expertise these pools can provide wider support for Partner Funds.
3. However, in operating any system, good governance is fundamental. This covers a wide range of issues but includes: the establishment of clear divisions of responsibilities; robust oversight including clear and transparent reporting; and simplified and flexible decision-making, including effective delegations to specialists trusted to exercise sound judgement over the long-term. The importance of good governance is often underestimated.
4. The "governance premium" is currently thought to be around 0.6% per annum additional return (and has been estimated as high as 1-2% p.a.) – as can be evidenced via asset owners with "good governance" (this relates primarily to clear delegation of investment decision-making with strong oversight and scrutiny by the asset owner board) based on research⁶ over the last 20 years. We recognise that standards are variable with smaller funds, in particular, less likely to rate themselves as highly on a number of important measures of quality. While each fund and pool should consider their own governance frameworks, progress on the 'Good Governance' review will support all of the LGPS and progress would therefore be welcomed by all⁷.

⁵ <https://www.plsa.co.uk/Policy-and-Research/Document-library/LGPS-views-from-inside-the-scheme>

⁶ Pension Policy Institute: "Defined Benefits: the role of governance"

⁷ The PLSA research, "LGPS: Views from inside the scheme" states that three-quarters of respondents believe government and regulators should focus on good governance (74%).

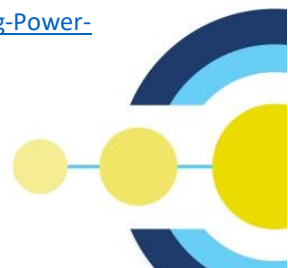


5. There are no significant technical barriers to increasing scale in the pools. Corporate activity to achieve scale within the asset management industry is commonplace albeit requires expertise, careful planning, and adequate resources to achieve benefits. However, in seeking scale (particularly in a smaller number of pooled vehicles), there can be transition costs. Support (in areas such as tax breaks) can make this process more cost effective.
6. Scale can deliver significant benefits. A 2022 publication⁸ by CEM Benchmarking Inc. looked at the case for scale for pension schemes. Its findings were that asset pooling led to lower staff costs per assets invested (due to the ability to internalise certain investment capabilities) and to lower external management fees (due to the negotiating strength that comes from the value of mandates being placed, negotiated by professional investors whose interests are fully aligned with the ultimate asset owners).
7. This is supported in the recent paper “Scale Economies, Bargaining Power, and Investment Performance: Evidence from Pension Plans⁹” (March 2023). This research demonstrates the benefits of economic scale in pension plan investments (particularly those with in-house investment capabilities): large plans have stronger bargaining power over external managers in negotiating fees as well as access to better-performing funds, relative to small plans. They use this power to produce higher gross and net-of-fee return performance, particularly in private asset classes.
8. However, scale doesn’t always deliver additional benefits; seeking scale without addressing issues such as: good governance (which grows in importance with increasing scale); a common vision and culture (within the Pool and among Partner Funds); complexity of investment strategies; and, customer needs, can inhibit or even damage a pools ability to deliver.
9. Delivering the benefits of pooling can be challenging and requires an understanding at officer and elected member level of both the benefits and costs of compromise, and an ability to assess where such compromise does not have a material impact on the risk/return profile that the Partner Fund wishes to achieve.
10. Given the potential benefits of scale, it’s important to consider the entire LGPS ecosystem. A key point for individual LGPS funds is that they need appropriate capacity and capabilities to deliver their objectives. We note the previous Communities and Local Government Committee report “Local authority investments¹⁰” highlighted the dangers to Local Authorities on the over reliance on external advisors (and not sufficient in-house expertise). There are potential solutions to this; for example, to utilise the skills, capabilities and capacity they have built in the pools that they own and, in many ways, are an extension of their own in-house resources.
11. In considering the LGPS ecosystem, it is important to recognise and manage the potential conflict of interest investment consultants have in providing investment advice to Partner Funds, and in the subsequent revenue they derive in supporting Partner Funds source appropriate investments outside their pool.

⁸ [A case for scale, February 2022](#)

⁹ <https://www.benefitscanada.com/wp-content/uploads/sites/7/2023/08/Scale-Economies-Bargaining-Power-and-Investment-Performance-Evidence-from-Pension-Plans.pdf>

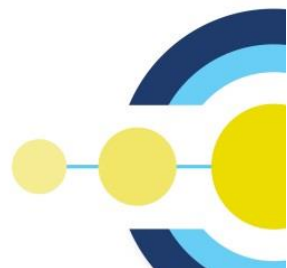
¹⁰ <https://publications.parliament.uk/pa/cm200809/cmselect/cmcomloc/164/164i.pdf>



12. We have seen greatest success working with consultants when there is a positive presumption towards pooling. In this situation, Partner Fund consultants / advisors consider the benefits that come from pooling (in both investment outcomes and reduced ongoing governance / advisory / reporting costs). We therefore consider that decision-making should consider implementation advice alongside model-based investment strategy advice.
13. While pools may be well placed to support Partner Funds in the development and implementation of their investment strategies, there remains an important role for consultants / advisors in supporting Partner Funds in how they provide oversight and scrutiny of the pool.

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?

14. We support the principle of transferring, or having a clear path to transition, assets to pools. As such, each Partner Fund's ISS should include a transition plan for assets to be transferred to the pools, as well as the composition and justification of any assets remaining outside the pool (i.e. comply or explain); this point is expanded in our response to Q7.
15. We note that one factor for our success to date was the time we collectively took at the start of our pooling journey to properly assess what our Partner Funds needed to deliver the policy intent of pooling. There is a danger that an artificial rush to deliver a solution may deliver sub-optimal outcomes.
16. We would welcome clarity on the position of legacy illiquid assets particularly those in private markets. With fees already negotiated, and with typically no ability to adjust them post commitment, transferring these assets to the pool may simply incur new legal and tax costs.
17. It may be more appropriate to agree that individual Partner Funds should not seek to make new illiquid investments outside their pool from this date unless there are compelling reasons. The pools (where appropriate) can also support Partner Funds on the oversight of legacy illiquid assets as they run-off. This could be on a case-by-case basis – for example it is possible to transition UK Real Estate assets with appropriate tax planning and achieve strong investment and business case benefits (although there remain challenges with Scottish and Welsh properties due to differing legislation and tax arrangements).
18. We would also welcome clarity on 'passive' investments. In our current arrangements, we have jointly procured 'market cap index' funds in large, liquid and low-cost pools. These assets benefit from oversight from Border to Coast, and there is no obvious value for them to be replicated within the Pool. As such, these investments should continue to be considered pooled ("assets under pool management").
19. We also note the current guidance that up to 5% of assets can be invested outside the pool. This flexibility should remain particularly when it is supporting other relevant objectives, such as making local investments. However, we also note this may add complexity in reporting.





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?

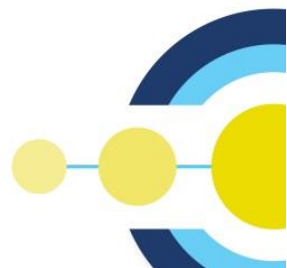
20. Through Border to Coast we have developed a model of pooling which has successfully allowed us to meet the government's original objectives for pooling. We support the approach set out in the consultation, which is consistent with how we have sought to pool. Nonetheless, we would urge caution on being overly prescriptive in describing any model in guidance as doing so would bring with it the risk of stifling innovation and the ability of Partner Funds and pools to respond to changing circumstances.
21. Administering Authorities are responsible and accountable for their investment strategies. A pool such as Border to Coast can play a significant role in supporting the development of, and being responsible for implementing, a Partner Fund's investment strategy. Robust governance arrangements need to be in place to manage potential conflicts, and to ensure proper oversight and scrutiny by Partner Funds can take place.

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

22. The key to a successful approach is ensuring decisions are made by the right people, with the right level of knowledge and experience, at the right time.
23. It is important that there is local accountability for target returns, risk appetite, and investment beliefs that underpin the investment strategy to deliver cost effective and sustainable pensions.
24. As outlined in the consultation, and something we support, the role of a Pension Committee is to review and approve the investment strategy, and to provide oversight and scrutiny on how effectively this is being executed; and not to make tactical and operational decisions, or try to second guess those directly running money.
25. To be effective in this role Committees need to have in place appropriate delegation of functions which are not central to the setting of strategy to Officers with sufficient experience and knowledge to support their Committee. In turn, Officers (and Committees) can be supported by the centre of investment expertise that resides in the pool that they own, which is also responsible for the implementation and management of that Funds investment strategy.
26. The knowledge and understanding of Pensions Committees may be supported by independent advisors / consultants who can play a key role in supporting the Committee in their responsibilities in the oversight and scrutiny of the implementation of the investment strategy by the pool.
27. For Pension Committees a key component to this is an effective training approach, which is reported against as part of clear delegation of functions between Committee and Officers. This is something our Partner Funds manage in a structured way.
28. We recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We consider that it is appropriate that the condition for sitting on a Pension Committee should match that of membership of a Local Pension Board.

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29. The Government's proposals in relation to the interaction of pools and funds, and the training of pension committee members, should be addressed as part of a holistic response to the Good Governance Project report completed by the Scheme Advisory Board to ensure changes take place within a framework focused on delivering the best outcomes for LGPS members. It is essential that the Good Governance Project is finalised and progressed as soon as possible.

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?

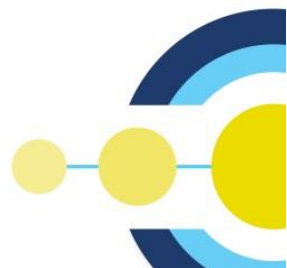
30. Noting our introductory comments, we support the proposal to have standard reporting requirements (with clear and consistent definitions). We would welcome this being progressed as part of the Good Governance project. We would also welcome a complete review of LGPS regulations to simplify and streamline processes and reporting requirements.
31. While we support reporting net savings, this needs greater consideration – specifically “against what?”. In calculating our savings, we are comparing our current position with (often) data from 2015/16. This is not the market pricing observed today, and does not reflect the changes in asset allocation over time, particularly the move into more expensive private market assets, which is supported by other proposals in this consultation.
32. Equally, a focus on cost may also drive unintended consequences (particularly given the desire from the Government to increase investment in more expensive asset classes, such as private markets). As the pooling journey continues, it would be appropriate to use other reporting mechanisms against global comparators using independent market experts. Mandatory participation in such exercises across the scheme would both increase their utility and also provide an opportunity to reduce the cost of participation.
33. Each Pension Committee should be measured on two basic measures:
- 33.1. Does it have an appropriate strategy, based on its liabilities and current funding level;
 - 33.2. Does it have an appropriate approach to implementing this strategy?
34. While the consultation provides a clear view on how funds should implement their strategy (in particular paragraphs 29-31 in the consultation), it is relatively silent on assessing whether the Committee has the right strategy. There is a range of existing, and emerging, frameworks on doing this and we would welcome the opportunity to progress this (possibly through the Scheme Advisory Board).

Benchmarking

35. We have significant concerns over using a uniform benchmark:
- 35.1. It doesn't account for any heterogeneity in beta exposures across funds. A fund with high exposure to the benchmark will naturally do better when the asset class does well, and worse in bad years.

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- 35.2. It may result in herding and short-term behaviour where funds seek to minimize tracking error with respect to the uniform benchmark. This is especially the case if the benchmark is peer-based and based on one-year returns. This is what we currently see in other countries such as Australia and Chile.
 - 35.3. For private assets, benchmarking is extremely difficult, and it is not clear that a government body will get it right.
 - 35.4. It may conflict with funds' additional mandates, such as the drive to net-zero. For example, a fund going green may face tracking error relative to the uniform benchmark and therefore be penalized in years where returns of green stocks are lower.
 - 35.5. Perhaps most importantly, an asset-specific uniform benchmark doesn't consider a fund's overall situation. Some funds might choose to invest heavily in a particular investment because of its strategic properties at the total fund level. Even if that investment underperforms the asset-specific benchmark, it might still be valuable for the fund.
36. If seeking to develop a benchmark to assess the performance of every fund, it may be more appropriate to:
- 36.1. Develop a benchmark at the total fund level, instead of the asset class level.
 - 36.2. Have a benchmark computed over an extended period of time (e.g. 5-year rolling window) in order to encourage long-term investing and allow for short-term fluctuations.
 - 36.3. Make the benchmark fund-specific, so that it is adapted to the fund's asset-liability profile. A more mature fund doesn't have the same risk tolerance as other funds so its benchmark shouldn't be the same.
37. There are several examples on how funds around the world (e.g. CPP, PSP, NZSF, NBIM) have adopted an interesting path where they have both a reference portfolio and a policy portfolio:
- 37.1. The reference portfolio invests in low-cost ETFs in the main public asset classes (e.g. fixed income, stocks). It is meant to be easy to understand and gives pension committee members a chance to frame a fund's risk profile based on its asset / liability situation. The reference portfolio can be mapped into a set of liability-driven risk metrics (i.e. probability of being underfunded in the next 5-10 years).
 - 37.2. The policy portfolio is also passive but takes into account the full universe of asset classes the fund invests in. The difference between the reference and policy portfolios captures the fund's ability to generate economies of scale and invest in asset classes that are otherwise hard to reach.
 - 37.3. The difference between the fund's actual portfolio and the policy portfolio picks up the alpha generated inside each asset class.





38. These issues are explored in more detail in “The Canadian Pension Model: A Quantitative Portrait¹¹”.

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

39. We support clear and consistent reporting by the Scheme Advisory Board (SAB), provided the Board is sufficiently resourced to undertake the work and it is undertaken in such a way as to minimise the data collection burden on the LGPS.
40. The current data collection by the SAB, which involves the manual analysis of 86 annual reports, is unsustainable given the increased reporting responsibilities for the LGPS. Therefore, some form of simplified return (which could encompass or replace SF3) would seem to be a sensible way of reducing the burden on funds while making data available to the SAB on a more timely basis.
41. We also note the broader issue of increased reporting for the LGPS. The research in the PLSA’s “LGPS: Views from inside the scheme” found that over half (54%) of respondents feel that the legislation/regulatory requirements are too complex to execute, while two in five (43%) continue to feel legislation/ regulatory requirements hinder them from doing their job effectively.
42. This is not to diminish the fundamental role of transparency and reporting. This is essential to ensure accountability, and to drive best practice across the LGPS. However, simplicity is key; reporting is becoming increasingly complex, reducing its value and accessibility for stakeholders. Indeed, we understand a recent review by SAB suggested that nearly a third of LGPS funds were not meeting their annual report disclosure requirements.
43. Simply adding additional reporting requirements not only adds cost, but there is a significant negative impact for the intended audience of the scheme members due to the volume and complexity of information being published. We consider that the impact assessment of changes in guidance – in terms of cost, transparency, and in the ability of readers to interpret what is shared – should be taken in the context of the ongoing review of LGPS reporting requirements being undertaken by the Scheme Advisory Board.

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

44. We agree with the definition outlined in the consultation.
45. Under current guidance, individual funds have the flexibility to invest up to 5% outside the pool. The local and specific nature of these investments mean they may be of a small scale and unable to be effectively delivered through the pool. As such, this exemption to making these investments outside of the pool should be maintained (although this should still be subject to regulatory permissions, resourcing, recognising the importance of managing conflicts of interest that may still arise, and the role pools can play in advising in relation to non-pooled investments). While this investment may take place outside the pool, we nonetheless recognise the role the pool may play (e.g. supporting due diligence, reporting, etc) on these investments.

¹¹ <https://jpm.pm-research.com>





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

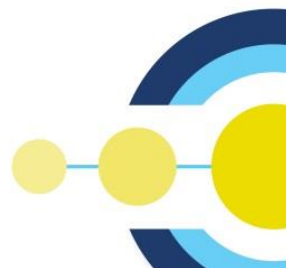
46. Collaboration has been – and should continue to be – a hallmark of strength in the LGPS.
47. If a pool is unable to effectively develop and manage an investment proposition, there may be merit in sourcing this capability through another LGPS pool. However, it needs to be recognised that there are several implications that need to be fully considered and risks mitigated. These include issues such as:
- 47.1. Proposition development – Border to Coast's propositions are designed with, and for, 11 Partner Funds who are both our shareholders and customers, and who meet the costs of proposition development directly. Care will be required should an external pool customer(s) wish to evolve existing propositions. The existing governance structures and processes may need to be reviewed to overcome this challenge.
 - 47.2. Niche strategies – certain investments may have capacity issues. For example, despite significant demand, the initial Border to Coast's Climate Opportunities strategy was capped at £1.35bn due to the immature state of the market. Care will be required in balancing the needs of shareholder customers vs external pool customers for capacity constrained investments.
 - 47.3. Cost model – as shareholders, existing customers principally manage the financial implications of risk through Border to Coast's regulatory capital. As non-shareholders, external pool customers would be subject to different pricing to reflect operational risk.
 - 47.4. Managing demand – in owning and building Border to Coast, there has been a structured approach to its growth – building capacity and capability to reflect Partner Funds long term needs. This is likely to be absent with non-shareholder customers and, in accepting external customers, there is a risk of managing in- and out-flows, potentially reducing the ability to plan the required capacity in various functions of the business. There are also similar considerations regarding management of liquidity in certain propositions.
48. Management of additional customers will require careful consideration, particularly noting the potential additional layer of due diligence costs that will be required as a regulated asset manager investing into another regulated asset manager's vehicle.
49. Nonetheless, if these issues are overcome, it would be easier to manage this on a pool-to-pool basis, than an individual fund-to-pool basis.

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

50. The objective of individual Partner Funds is to generate the appropriate risk adjusted returns to ensure they can operate the LGPS in an affordable and sustainable manner.

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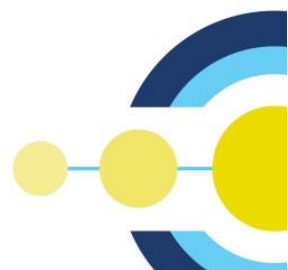


51. Where ancillary objectives can be co-delivered without impacting these returns or increasing risk, such as those outlined in the Levelling Up White Paper, this is to be welcomed. Indeed, our 11 Partner Funds have within them seven of the ten most deprived areas in the Index of Multiple Deprivation (as reported in the 2019 English Indices of Deprivation). Levelling Up, effectively delivered, has the potential to create growth; including creation of jobs, drive productivity, improve people's quality of life and better health and wellbeing outcomes.
52. Nonetheless, LGPS assets are invested to deliver appropriate risk adjusted returns and should not be used to implement any Central Government policy objective – no matter how laudable it may be. We welcome the recognition in the consultation that each Partner Fund is responsible for setting their investment strategy, designed to deliver the appropriate risk adjusted returns they require.
53. Any investment strategy and associated reporting on Levelling Up needs to be through the principal asset classes (e.g. Real Estate, Private Equity, Infrastructure, Private Credit, etc). This ensures that the risk adjusted returns are considered on the same basis. This can be reported via a Fund's Investment Strategy Statement. Investments which support the policy intent of the Levelling Up White Paper should be reported as a memorandum item.
54. Border to Coast has announced plans to launch a 'UK Opportunities' strategy as part of its private markets programme¹², designed to provide attractive risk adjusted investment returns to Border to Coast's 11 Partner Funds. It will be a multi-asset UK strategy investing in areas such as Corporate Financing, Housing, Property, Infrastructure, Renewables, and Social Bonds.
55. The nature of underlying investments should result in a range of positive impacts, which could include jobs created, new housing units delivered (residential, affordable, social, assisted), new commercial floor space, delivery of local infrastructure, renewable energy capacity, the provision of training including apprenticeships.
56. Subject to ongoing engagement with Partner Funds, 'UK Opportunities' will be launched in April 2024.

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

57. We are comfortable with the proposals, albeit we note that this again expands the reporting and regulatory requirements on Funds – which will have resource and costs implications.
58. We note our previous comments about increased reporting requirements and the need to ensure consistency and compliance in reporting. As this is a new requirement there is an opportunity to start with a clean piece of paper and adopt existing industry wide best practice standards.

¹² <https://www.bordertocoast.org.uk/news-insights/border-to-coast-marks-five-years-of-delivery/>



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?

59. Administering Authorities remain responsible for their investment strategies. We welcome the consultations recognition of this.
60. As an open DB Scheme it is essential that the LGPS develops appropriate diverse investment strategies designed to balance risk and return to ensure the scheme remains affordable, with stable employer contributions.
61. As part of this approach private markets can play an important role. The creation of Border to Coast has significantly enhanced Partner Funds ability to access this asset class – and this has led to a £12bn (c. 20% of Partner Funds’ total assets) programme to date.
62. We note the reference to private equity and consider this is too narrow a definition. Indeed, early-stage growth is high risk. For investors who have not made meaningful or any previous commitments to private capital more broadly, this is a challenging entry point and risks disappointing or volatile returns/losses which would be likely to discourage future investment in private markets.
63. A broader definition of ‘private growth capital’ allows investors to build private market risk appetites which suits their own circumstances.
64. Over the medium term, collectively and as part of our Partner Funds’ individual investment strategies, we will meet the aspiration to invest 10% of our assets in these areas. Recognising our current extensive UK investment exposure, seeking appropriate and diverse investment opportunities exposure to this type of investment should be global in nature.

Delivering investment in the UK

65. We recognise the dual intent on this issue, and the desire for additional capital to be invested to support UK economic growth. The most effective way to encourage any investment in the UK is the provision of a stable investing environment through policy certainty.
66. The LGPS needs to maintain a risk profile commensurate with an open scheme. If the LGPS and private capital is being asked to make large, long-term, capital investments, the Government needs to offer corresponding long-term guarantees and/or the necessary policy certainty to protect these potential investors. Examples include policy certainty on renewable energy, transport and other climate transition considerations (such as carbon pricing); improvements to the planning regime to accelerate development opportunities and to enable clearer partnership opportunities with Local Authorities; and the development of structures (perhaps with the support of BBB or UKIB) that enable risk sharing or return visibility.
67. While there is understandably a continued focus on costs, we recognise that private markets are a higher risk, more complex and expensive asset class (and reallocating to it will push up overall costs). In developing Border to Coast, we have built the capabilities and capacity to access these markets in an effective and efficient manner; in our last annual report¹³ we highlighted that we have secured a c.24% reduction in fees in this key asset class.

¹³ <https://www.bordertocoast.org.uk/wp-content/uploads/2022/07/Annual-Report-and-Accounts-2021-22.pdf>
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68. We note that the 'Mansion House Compact' has the potential to deliver an additional £75 billion of investment (with additional monies coming from the DC market). While it may benefit high growth companies, we need to consider the impact on the wider ecosystem – for example, the capacity of the system to absorb this capital, the potential impact on pricing.

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

69. There is a range of potential partners that can support the LGPS pools to deliver growth capital in the UK – the British Business Bank (BBB) and the UK Infrastructure Bank (UKIB) being two examples. It is our understanding that while BBB is seeking to be a 'fund of funds', UKIB is delivering direct investments.
70. Given their state ownership and strategic focus to 'crowd in' other investors, these institutions may be well placed to support the LGPS pools source and commit to ventures that meet their normal investment criteria.
71. We do note that one of the key objectives of LGPS pooling was to reduce the fee burden paid by pension funds, and in a private market context, reduce the reliance on fund of fund structures which introduce an additional layer of fees and carry (profit share) expense. As such, any vehicle should be offered on a cost only basis if the intention is to encourage greater participation in this part of the market. Additional fee load will detract potential investors who are sensitive to fees. BBB will be investing balance sheet capital into all investments so a successful investment policy will deliver profitability for them without a reliance on fee income.
72. Noting our previous comments, it is important that any partner to the LGPS has the appropriate capacity, capability, and fee structure to support the implementation of our investment strategies.

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

73. Our 11 Partners Funds already take this approach, and we welcome its consistent application across the LGPS.

14: Do you agree with the proposed amendment to the definition of investments?

74. Yes.

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.

75. No

Border to Coast Pensions Partnership Limited

A Company limited by shares and registered in England and Wales with Registration Number **10795539** and whose registered office is at **5th Floor Toronto Square, Toronto Street, Leeds, LS1 2HJ**

