



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

This response to the LGPS “Fit for the Future” consultation has been prepared by the Wales Pension Partnership (WPP).

We support the direction of the proposals, to conclude the transfer of all remaining assets to pool management quickly and the intention to further increase the benefits of LGPS investment pooling, including increasing the focus on local investment and supporting UK growth.

We welcome the opportunity to provide input to the consultation. In our response we have stated where we fully support proposals and where we have concerns on the benefits, practicalities and timing. On timing, it will be important for government to (a) allow time for local authority governance approval of changes to existing Inter-Authority Agreements which, in some cases, require full Council approval; and (b) confirm final proposals as soon as possible after the consultation stops since without this it may be difficult for local authorities to approve implementation steps and allocation of additional financial resources to support implementation including hiring suitably qualified personnel for the FCA regulated pool company.

WPP is committed to further developing its pool operating model to fully comply with government requirements once confirmed. We are developing plans for the WPP to continue as a standalone pool, uniquely placed to deliver benefits to LGPS scheme members in Wales and bring wider benefits through local investment in Wales. Work is already underway.

Cllr. Elwyn Williams, Chair of the WPP Joint Governance Committee

For and on behalf of WPP

	Question	Response
LGPS Pooling		
1	Do you agree that all pools should be required to meet the minimum standards of pooling set out above?	<p>Somewhat agree.</p> <p>Looking at each of the minimum standards in turn:</p> <p>1) Pool company¹ – “pools ... <i>required to be established as investment management companies authorised & regulated by the FCA</i>”</p> <p>We believe that the benefits of pooling can be achieved using WPP’s current pool operating model. Adding the pool company to the structure adds another significant layer of cost and operating complexity.</p> <p>2) Strategy Implementation – “AAs ... <i>required to fully delegate the implementation of that strategy to the pool</i>”</p> <p>Yes. WPP currently operates on this basis via the Fund operators for listed and unlisted assets and through the appointment of Russell Investment and unlisted fund allocators.</p> <p>3) Strategy advice - “AAs ... <i>required to take principal advice on their investment strategy from the pool.</i>”</p> <p>WPP shares the SAB view that administering authorities should retain the option of taking independent advice and be able to review any advice provided by pool companies. This would help allay concerns around the potential for actual or perceived conflicts for the Pool Company. See our response to Q5 for more detail.</p> <p>4) Legacy assets - “<i>transfer legacy assets to management of the pool.</i>”</p> <p>We have concerns on potential risks in requiring all AAs to transfer all legacy illiquid assets to pool company management immediately. There may be little or no economic benefit in doing so and we believe that in some cases it may be safer to continue to manage the run-off to maturity of legacy unlisted assets locally since local AA officers and their advisors have historic knowledge of the specific investments (e.g. various vintages of private market closed ended investments) and established processes for managing them (including for example management of capital calls). If the government does require transfer of management of legacy assets to the pool companies, it will be necessary to ensure that pool</p>

¹ FCA Regulated Investment Management Company

		<p>companies steward legacy assets on behalf of owners in a way that avoids economic detriment to the owning Funds e.g. by avoiding forced sale of unlisted assets at an inappropriate time. Pool companies should consult AAs on appropriate timing and approach to transferring legacy assets to pool vehicles. Please see our response to Q8.</p> <p>5) Local investments – <i>“Pools ... required to develop the capability to carry out due diligence on local investments and to manage such investments.”</i></p> <p>WPP already assesses local investments on behalf of the AAs using its unlisted asset managers and other external advisors. Setting up a permanent in-house team may be a disproportionate cost given the frequency and variety of such investment opportunities. WPP will continue its current approach (via the new pool company) and look for opportunities to collaborate with other pools in respect of local / impact investment opportunities.</p>
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?	<p>Yes, but it is not sufficient for AAs to set only the high level investment objectives high level strategic asset allocation (SAA).</p> <p>Investment strategy set by AA should include</p> <ol style="list-style-type: none"> 1) High level objectives 2) High level strategic asset allocation 3) Additional details including for example <ol style="list-style-type: none"> (i) risk-return preferences (there can be large variations between different mandate types within the same asset class); (ii) preferences* for passive and active investment; (iii) strategic needs in respect of cashflow (some individual funds will be cashflow negative); (iv) employer specific investment strategies where these form part of the fund’s Funding Strategy Statement; (v) net zero targets for its investments.

		<p>*In figure 1 of the consultation, under “investment objectives” which are a decision for administering authorities, the government references “investment preferences” explicitly.</p> <p>We agree that pool companies should undertake the activity required to implement the investment strategy specified by each Administering Authority in the pool. WPP already operates on this basis.</p>
3	Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority’s fiduciary duty?	<p>No, there are additional considerations for AAs in meeting their fiduciary duty.</p> <p>The AA’s core fiduciary duty is to meet pension payments when due. A critical aspect of this is being able to meet cashflow requirements, ideally avoiding forced asset sale. So, specification of cashflow requirements is essential to meet fiduciary responsibilities.</p> <p>Other important aspects of fiduciary duty include:</p> <ul style="list-style-type: none"> - decisions on net zero ambitions (which may differ from fund to fund); - maximising returns subject to the risk tolerance agreed as part of the Funding Strategy Statement; and - local preferences for active vs passive investment (also related to locally decided risk tolerance).
4	What are your views on the proposed template for strategic asset allocation in the investment strategy statement?	<p>There is not sufficient granularity in the proposed template.</p> <p>Missing elements of the template include AA choices in respect of:</p> <ul style="list-style-type: none"> (i) risk return preferences (there can be large variations between mandate types within an investment class); (ii) active v passive investment; (iii) net zero ambitions; (iv) liability matching; and (v) specifying local investment allocation.

Do you agree that the pool should provide 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?

WPP shares the SAB view* that administering authorities should retain the option of taking independent advice and be able to review any advice provided by pool companies. This would help allay concerns around the potential for actual or perceived conflicts for the Pool Company. (*SAB consultation response: *“the Board has some concerns about funds being required to (as opposed to choosing to) take investment advice from the pool ... Where a fund takes its principal advice from the pool and separate, independent advice from another source, then there should be no suggestion that it is required to follow the pool’s advice where they differ.”*)

There is merit in investment strategy advice being provided independently from the provider of investment solutions (the pool company). There is potential for actual or perceived conflict for the pool companies in the approach proposed by government. An example would be advice restricted to asset classes and investment solutions currently available to the pool where the pool has not developed the investment solution required by the AAs in order to meet their liabilities when due and their fiduciary responsibility e.g. lack of appropriate income generating assets required by AAs which are in a cashflow negative position.

Use of investment advisors independent from the pool company also enables periodic review and replacement by competitive procurement, encouraging market competition and innovation that delivers better outcomes for LGPS funds and their members.

The government must allow AAs to critique any investment advice they receive from pool companies, supported by independent advisors if required.

Government should allow AAs freedom in choice of who provides advisory support to critique and challenge to advice provided by pool companies. Using independent “individuals” may not be sufficient. AAs should be free to take advice from consulting firms which can provide a full range of subject matter experts, up-to-date and comprehensive research capabilities, FCA regulated advice where required and peer reviewed advice with appropriate professional indemnity insurance and liability coverage.

AAs need to be satisfied that pool companies are capable of delivering the required range and quality of advice and that the pool company advice teams have the appropriate experience, knowledge and understanding of LGPS liabilities. As the government notes in the consultation, this capability will not be in place by March 2026 and will need to be developed over time. In the meantime, the government should allow pool companies to outsource the work to experienced LGPS investment consultants.

6	Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?	<p>We are committed to putting in place an FCA regulated investment management company (the “pool company”) if required to do so.</p> <p>That said, WPP’s current operating model currently achieves government pooling objectives without the significant additional cost and complexity of a pool company owned by AAs. It is not clear that this will provide any immediate financial benefits to offset additional costs.</p> <p>Independent investment advice has advantages compared to advice provided by pool companies due to (i) potential for actual or perceived conflicts for pool companies; (ii) the ability to periodically review and replace independent advisors; (iii) competition driving best practice, innovation and efficiency that benefits LGPS funds; and (iv) the difficulty for pool companies in developing the full range of capabilities and LGPS experience (including understanding of local liabilities and projected cashflow needs) provided by consulting firms currently.</p> <p>There is merit in having some work centralised and done collectively at pool level e.g. manager review and replacement, developing policies and processes in respect of responsible investment and voting and engagement. Under the current WPP pool model, all of these activities are already undertaken collectively at pool level with the support of external service providers.</p>
7	Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?	<p>Yes for actively managed listed assets.</p> <p>WPP and other LGPS pools already have passive investments in pooled vehicles not managed by pool companies (such as life policies). For listed passive investments, current arrangements for WPP and other pools are highly cost effective (“crossing benefits” and other scale benefits achieved by passive managers that are greater than those that could be delivered in respect of a single pool’s passive investments alone). If transfer of passive investments to pool company managed vehicles is mandated, AAs will suffer additional costs (including significant asset transition costs) without compensating benefits.</p>
8	Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?	<p>There should be no new investment in unlisted / illiquid assets in non-pool vehicles going forward.</p> <p>There are potential risks in requiring all AAs to transfer all legacy illiquid assets to pool company management immediately in March 2026. There is potentially little or no economic benefit in doing so and in some cases it may be safer to continue to manage the run off to maturity of legacy unlisted assets locally since local AA officers have historic knowledge of the specific investments (e.g. various vintages of private market closed ended investments) and established processes for managing them (including for example monitoring and management of capital calls). To address this potential risk, it may be preferable to</p>

		<p>allow AAs and their advisors to manage such investments to maturity or ensure that pool companies continue to draw on local knowledge and experience of the specific assets.</p> <p>If the government does require transfer of management of legacy assets to pool companies, it will be essential to ensure that pool companies exercise the appropriate level of due care. Specifically, it will be necessary to ensure that pools steward legacy assets on behalf of owners in a way that avoids economic detriment to the owning Funds e.g. by avoiding forced sale of unlisted assets at an inappropriate time. Pool companies should consult AAs on appropriate timing and approach to transferring legacy assets to pool vehicles.</p>
9	<p>What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?</p>	<p>Please see response to Q8. The necessary knowledge of specific unlisted legacy assets and established processes for managing them currently reside with the AAs that own these legacy assets. Moving management to pool companies that lack this historic knowledge of these investments and established processes for managing them may add risk and cost.</p> <p>If government does compel the transfer of management of legacy assets to pool companies, WPP will appoint a pool officer with responsibility for legacy assets. Each WPP AA would have an Investment Management Agreement with the WPP pool company in respect of its own legacy assets. The IMA will empower the WPP pool company to manage those assets with appropriate care and diligence on behalf of the AA to which they belong. Legacy assets will remain allocated to that AA until such times as they mature and are transferred to pool solutions.</p> <p>This pool officer responsible for legacy assets would be assisted by WPP's listed and unlisted investment managers in considering appropriate timing and means of disposal of legacy assets and appropriate pool vehicles for investment of sale proceeds. Support would also be obtained from appropriate specialist consultants.</p> <p>The pool officer responsible would engage with and consult asset owners on proposed timing and means of disposal of legacy assets, and proposed pool vehicle to take sale proceeds, consistent with the AA's locally decided investment strategy. It is important to note that it will take a number of years to transition all legacy assets. For example, existing private equity holdings would likely be held until their natural maturity rather than having an earlier disposal in secondary markets at discounted valuations which would destroy value for the asset owner.</p>
10	<p>Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?</p>	<p>Although WPP is committed to meeting government timelines, we do think the timescales are very challenging. In particular, the suggested timeline disadvantages pools that currently have different operating models from that which is now preferred by government. A timeline that is excessively short could also lead to sub-optimal or compromise implementation approaches that could, with more time, be avoided.</p>

		<p>It is important that the timeline for implementation should accommodate local authority governance approval timescales.</p> <p>For all or most pools, changes requiring AA approval (by full Council and/or S101 committees) are likely. WPP is governed by a legally binding Inter Authority Agreement (IAA) which contains certain reserved matters that require local agreement. This will need to be unwound and replaced.</p> <p>It may be difficult or impossible for AAs to approve implementation steps with material costs (such as hiring personnel for pool companies) in the absence of regulations (in draft form at least). It is critical that any changes in regulation that government makes based on this consultation are published as soon as practical to prevent local authority approval delays which could make it impossible to meet the government's timeline.</p>
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?	<p>WPP is open to opportunities to collaborate on specific asset class solutions and will continue dialogue with other pools that may identify areas of mutual benefit.</p> <p>A longer implementation timeline would allow proper exploration of such possibilities. Short timescales for implementation will cause pools to prioritise steps required to ensure their own pool is compliant with new requirements by whatever means the timeline allows.</p>
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?	<p>We believe that there is potential for collaboration between partner funds in the same pool in areas such as member administration and training. Implementing collaboration on member administration is a non-trivial exercise and it is unlikely that it could be progressed in parallel with the next phase of pooling.</p> <p>WPP already has an annual training plan for AAs.</p>
Local Investment		
13	What are your views on the appropriate definition of 'local investment' for reporting purposes ?	<p>WPP recognises the government expectation that "local" should be considered UK wide, using LGPS assets to support UK growth. At the same time, given its unique position and motivation to support investment in Wales, which is where WPP will prioritise its local investment efforts, building on work done to date.</p> <p>We would expect "local" investments to focus on unlisted investments (infrastructure, private equity, etc), including some smaller investment opportunities with potential to have high impact and value locally.</p>

		<p>We would therefore expect reporting to exclude investments in UK listed equities, bonds and credit (but include real estate – the WPP Impact Fund will have a Wales target).</p> <p>WPP will report local investment in Wales and, separately, local investments in the rest of the UK.</p>
14	<p>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? How would you envisage your pool would seek to achieve this?</p>	<p>Yes.</p> <p>WPP plans to appoint an officer with responsibility for local investment opportunities. Their responsibilities will include liaising with local authorities, Corporate Joint Committees and other public bodies in Wales to identify potential investment opportunities that support local growth priorities.</p> <p>WPP's head of local investment will have assistance from WPP's unlisted investment managers who will support DD for relevant opportunities in various asset classes (infrastructure, private debt, private credit, etc).</p> <p>Specialist external advisors will also be used for DD on specific local opportunities that do not fit with the mandates of the pool's unlisted managers.</p>
15	<p>Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?</p>	<p>Yes.</p> <p>As noted earlier, the proposed template for AAs to specify locally decided investment strategy should be changed to include specification of the target range for local investment.</p>
16	<p>Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?</p>	<p>Yes. WPP plans to appoint an officer with specific responsibility for local investment opportunities (see Q14)</p> <p>Given the likely modest numbers of such opportunities it may not make sense to have all of the necessary skills as hired internal roles (investment, due diligence, and legal expertise and experience across a wide range] of local / impact investment types). Instead, pool companies should be able to draw on relevant experienced external specialists to assess opportunities and carry out DD before proceeding.</p>

		In theory this is an area where collaboration between pool companies may be helpful (e.g. shared DD for co-investment by different pool companies). In practice, this may not be workable for WPP given its objective of focusing on local investment in Wales.
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?	Yes. As well as normal investment performance reporting, reporting on local investment should include the benefits realised by the investment (economic, environmental and social).
Fund governance		
18	Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?	N/A. Please refer to responses from individual LGPS administering authorities in Wales.
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?	N/A. Please refer to responses from individual LGPS administering authorities in Wales.
20	Do you agree with the proposals regarding the appointment of a senior LGPS officer?	N/A. Please refer to responses from individual LGPS administering authorities in Wales.
21	Do you agree that administering authorities should be required to prepare and publish an administration strategy?	N/A. Please refer to responses from individual LGPS administering authorities in Wales.
22	Do you agree with the proposal to change the way in which strategies on	N/A. Please refer to responses from individual LGPS administering authorities in Wales.

	governance and training, funding, administration and investments are published?	
23	Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?	N/A. Please refer to responses from individual LGPS administering authorities in Wales.
24	Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?	N/A. Please refer to responses from individual LGPS administering authorities in Wales.
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?	N/A. Please refer to responses from individual LGPS administering authorities in Wales.
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?	<p>Our views on this are similar to those on Q5.</p> <p>Yes, administering authorities should appoint an independent advisor / advice firm (not necessarily an individual) to provide advice to the pensions committee (not to be appointed as a member of the committee).</p> <p>Given their fiduciary responsibilities, it is important that AAs are free to take independent advice. Part of this role should be to critique and challenge to any advice provided by pool companies.</p> <p>AAs should be free to select independent advisory support from individuals or consulting firms. However, using independent “individuals” may not be sufficient. AAs should be free to take advice from consulting firms which can provide a full range of</p>

subject matter experts, up-to-date and comprehensive research capabilities, FCA regulated advice where required and peer reviewed advice with appropriate professional indemnity insurance and liability coverage.

Pool governance

27	Do you agree that pool company boards should include one or two shareholder representatives?	<p>It is essential that the AAs who are joint shareholders of the pool company and clients / investors should have representation on the pool company board.</p> <p>Ideally the number of shareholder reps would not be stipulated. The FCA will require to see the proposed constitution and remit of the pool company Board as part of the process for authorisation of the pool co. It should be the arbiter of the appropriate mix and skills of Board member reps.</p>
28	What are your views on the best way to ensure that members' views and interests are taken into account by the pools?	<p>This should be via client-side pool governance. Each pool has a number of client-side governance groups, often including a Joint Committee of Chairpersons of the AAs' S101 committees. In many or most pools, there is already scheme member representation. This provides a channel for scheme member voice and representation in the oversight of the pool co and the investment vehicles in aspects relevant to scheme members (e.g. performance, RI policies, etc)</p>
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?	<p>Yes, we agree there should be transparent and consistent reporting on performance and costs.</p> <p>Most pools already have reasonably well-developed investment performance reporting for investors (investments returns, costs) and some pools with also have service delivery KPIs that are monitored regularly. Further development of these should continue.</p> <p>Cost reporting should include not only investment management costs, but full transparency of pool co management costs and the costs of all third-party services (outsourced functions, consultants, depositary, custody and all other service provider costs). This should be in £ and percentage of asset terms.</p> <p>Cost data should be published showing breakdown between pool company costs, investment management costs (internal and external) and other costs in a way that enables fair comparisons.</p> <p>Investment performance should be benchmarked against appropriate mandate objectives and against peer group investment managers. Investment cost benchmark comparisons should also be undertaken periodically. We acknowledge that peer group</p>

comparisons require care to ensure fair, like-for-like comparisons. Professional benchmark service providers can provide such analysis periodically to identify any areas of concern.

Equality Impacts

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.

We note that WPP will require to be able to provide all communications in Welsh language as well as English.