Appendix 1

Enfield Pension Fund Response to Pension investment review call for evidence - September 2024

Scale and Consolidation

1. **What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?**

   Response:
   Not relevant for LGPS schemes.

2. **What should the role of Single Employer Trusts be in a more consolidated future DC market?**

   Response:
   Not relevant for LGPS schemes

3. **What should the relative role of master trusts and GPPs be in the future pensions landscape? How do the roles and responsibilities of trustees and IGCs compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?**

   Response:
   Not relevant for LGPS schemes

4. **What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?**

   Response:
   Not relevant for LGPS schemes

5. **To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?**

Response:

Asset pooling in London has already produced significant benefits. Since its introduction, investment management fees have significantly decreased across major asset classes, particularly in private markets. The London CIV estimates almost £87 million in savings since its inception.

Additionally, the London CIV has launched several mandates, significantly enhancing its Partner Funds' capacity to invest in a wider range of asset classes. Examples of these include renewable infrastructure, buy-and-maintain credit, and UK-based property—all now accessible more quickly and cost-effectively than before the introduction of asset pooling. The Pools need to ensure that there is sufficient variety availability of products going forward to meet partner fund's needs (such as Private Equity). Mechanisms need to be in place to ensure other options are available if not met by the Pool.

Relatively speaking, LGPS asset pooling is still in its early stages. Given this relatively short timeframe, evaluating the long-term success of LGPS asset pooling based on risk-adjusted returns appears premature, as there is insufficient historical data. Moreover, during this period, which commenced with a few "lift and shift" funds, investors have faced significant structural changes in the financial markets. Brexit, the COVID-19 pandemic and a prolonged period of high inflation have all contributed to heightened market volatility, further complicating any assessment.

LGPS asset pooling, however, continues to evolve, meaning the relationship between the Asset Pool and its Partner Funds remains paramount. The recent FCA regulatory permissions obtained by the London CIV provide further opportunities for the asset pool to work more closely with its Partner Funds.

To ensure long-term success and deliver value to members and stakeholders, having an effective, modern governance structure should be a priority. Such a structure should provide proper oversight of the Asset Pool while maintaining local accountability. It should include representation from LGPS funds, scheme employers, and scheme members. At the same time, it should facilitate choice, allowing those with fiduciary responsibilities to fulfil their obligations to diverse stakeholders, whilst recognising that compromise will be needed to deliver an optimum pooled solution. (We believe this is currently in place with the London CIV solution)
The ongoing collaborative efforts across the London LGPS community provide strong evidence of the potential for improved long-term, risk-adjusted returns through working together towards shared objectives.

Enfield Pension Fund currently has over 54% of assets invested via the London CIV pool with more assets to follow. As well as providing significant fee savings on investment management expenses, London CIV has provided expertise on manager selection & monitoring and governance services which otherwise would have been very costly to obtain.

If the Government want to encourage transitions in asset allocation or to more pooling this should not be done in manner that causes fund any financial loss through forced sales.

Cost vs Value

1. **What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?**

   Response:
   Not relevant for LGPS schemes.

2. **Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?**

   Response:

The Enfield Pension Fund reviews its Strategic Asset allocation on an annual basis and invests across several different asset classes. The allocation is constructed in order to meet our Actuary's estimation of our liabilities (i.e., the pension payments that are due now and, in the future,). Enfield's investment consultants assist in constructing a distribution of asset matching returns and volatility in order to meet those liabilities. Enfield considers itself to be long term investors and selects funds and investments that match this profile. The current Strategic asset allocation for the Enfield Fund is shown below:

Asset class	Strategic Asset Allocation * %	Expected Return % p.a.	Volatility % p.a.
Equities	40	7.1	17.3
Bonds	24	5.9	5.2
Private Equity	8	8.7	28.3
Inflation Protection illiquids	7	5.5	7.5
UK Property	5	5.9	12.5
Infrastructure	16	7.1	18.6
Cash	0	4.2	1.6
Total	**100**		

Overall expected return 7.4% p.a.
The Enfield Fund procure investment managers for each of the asset classes above with the priority always being to invest through the London CIV pool who can deploy our funds in both listed and private markets.

Once this Strategic Asset Allocation has been agreed, the contribution rates for employers in the fund are set, with the assistance of the actuary. Any changes the Government seeks to encourage/ mandate, must ensure we are equally robust in meeting the twin objectives of certainty in funding levels for our scheme and while offering affordable contribution levels for employers. The largest employer in the Fund is Enfield Council, and lower contribution rates

will mean that more funds are available to spend on front line local service thereby providing stimulus to the local and UK economy. We use normal actuarial assumptions to measure risk volatility and returns to ensure overall scheme performance is set at a level that does not jeopardise the employer, by creating a potential for longer term scheme deficit.

There is a requirement to not only achieve returns but also manage liquidity and different asset classes impact liquidity in different ways. This dimension is very important for schemes to consider and new asset classes which may be produced need to have profiles that integrate into our portfolios. Our targets throughout our asset allocation strategy are already based on net returns rather than simplify costs. It should nevertheless be recognised that driving down investment management expenses is a legitimate way to increase net returns and been a primary driver for pooling to date.

Well-funded schemes should be able to reduce their appetite for risk rather than being encouraged to essentially gamble with employer contributions, risk eroding funding and consequentially requiring higher and higher contributions, which could then place a financial strain upon employers. If the Government were to underwrite such investments, so that a satisfactory minimum return could be achieved that could lead to incentivising investments in a broader range of assets, then this would be preferable.

Investing in the UK

1. **What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?**

Response:

There is limited evidence to suggest that consolidation, whether by reducing the number of LGPS funds, Asset Pools, or both, will result in increased net investment in UK asset classes, nor also on returns net of fees.
LGPS funds have distinct characteristics, including liability profiles, risk appetites, cash flow requirements, and other key objectives. Any attempt to further consolidate pensions across the LGPS could involve significant operational risks, which could substantially impact scheme members and their employers adversely. For example, a fund with an 85% funding level and another with 115% will likely have different outlooks and furthermore, the issue around local accountability (and employer contributions) becomes blurred.

Even within Funds there are different employers who can have different funding levels. The Enfield pension Fund has over 25,000 members across 54 employer organisations. The overall funding level for the Enfield Fund at the last triennial valuation (2022) was 104%. The funding position as at June 2024 is estimated to have improved to around 122%. The Fund has democratic accountability to these employers. The largest employer in the Fund is Enfield Council and there is a fiduciary duty to the ultimate funders of the Council (the local taxpayer) to ensure that long term contribution rates are low and stable.

It is also worth adding that Pension Fund Members and wider Council taxpayers expect that ESG issues are considered in all investment matters, and we have a Responsible Investment Policy that reflects this. Different member funds may have different priorities which become complicated in pooled arrangements.

However, increased collaboration across the scheme, both at LGPS fund and Asset Pool levels, is likely to be more effective and quicker, providing the potential for meaningful impact on UK growth. This collaboration extends to the widespread use of shared services in the LGPS across fund administration and investment management. However, there are additional areas which we are working on with regards to further integration to deliver better value which include better use of shared services (e.g., accountancy) and joint procurement, including advisors.

Several London LGPS funds have recently accessed UK-based investments, such as infrastructure and place-based investing, through the London CIV. In many instances, it is the Partner Funds themselves that have spearheaded these initiatives, with the Asset Pool implementing them based on investor demand. This clearly demonstrates the existing appetite for UK investments, provided the investment case is compelling.
If the investment case is compelling it will attract investment in its own right.

Therefore, it is important to recognise that the primary factors influencing investment decisions in UK-based asset classes are not linked to the size of individual LGPS Funds or Pools. Rather, these decisions stem from strategic asset allocation decisions made at the fund level to safeguard scheme member pensions.

Furthermore, there needs to be greater clarity on how Pension Committee Members fiduciary duty aligns—or potentially conflicts with—the aims of increased investment in UK assets and how this can be resolved in a collaborative manner.

2. **What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?**

Response:
As global investors with the primary objective of safeguarding member pensions, LGPS funds have the ability and willingness to invest in countries offering attractive risk-adjusted returns, including the UK. It is estimated that the average London LGPS fund has approximately one-third of its assets invested within the UK across various asset classes, including UK property, UK listed equities, and UK government gilts. For Enfield Pension Fund this investment is approximately 30%.

LGPS funds have traditionally maintained substantial allocations to UK Property. In recent years, they have expanded beyond traditional "core and core plus" property funds, venturing into residential housing and student accommodation. These sectors have become attractive due to favourable supply/demand dynamics and their ability to generate stable income—an important factor for LGPS funds as they mature. For Enfield Pension this represents approximately 11% of the Fund’s assets. Furthermore, these

place-based investments often provide positive environmental and social benefits, increasing their overall attractiveness to investors.
However, several factors have negatively impacted the relative attractiveness of UK listed and unlisted equity. For example, as of 31 August 2024, UK listed companies comprised only 3.43% of the MSCI ACWI Index, with most of the largest UK companies earning the majority of their revenues from outside the UK. Therefore, significant allocations to UK listed equities would not align with the investment diversification principle, which is rightly emphasised in the Statutory Guidance on Investment Strategy published in July 2017.

UK listed equity returns have consistently underperformed global financial markets, particularly the US. The FTSE 250 index, which reflects the real strength of the UK economy, has significantly lagged the MSCI ACWI index over the past five years, remaining essentially flat during this period. This stark contrast has led to a considerable shift away from UK listed equities. In addition to this, purchasing UK listed equities often incurs higher transactions costs which further deters investment capital.

In recent years, many LGPS Funds have either set or seriously considered adopting net zero ambitions and decarbonisation targets. UK listed equities have a lower representation of information technology companies and a higher allocation to legacy industries with greater carbon intensity. Consequently, global stocks currently offer both higher expected returns and better alignment with ESG objectives.

Encouraging UK investment should be focussed on productive capital and not listed equities. Listed equities are secondary capital. The Alternative investment market (AIM) would not be suitable for pension fund investment either due to the risky nature of investments and the looser governance arrangements in place.

If the government were to prioritise enhancing the UK's global competitiveness in business, emerging industries and technology, by addressing these issues, the relative attractiveness of UK listed equities should improve and likely lead to increased allocations to UK assets over time.

3. **Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?**

There is a case for establishing additional incentives to attract more LGPS funds to invest in UK asset classes. Such incentives could include government-funded financial and risk management measures, such as tax breaks or guarantees of minimum or fixed returns (the latter may be more palatable, as the government could benefit from any excess return, which could then be re-invested to further stimulate UK growth). These measures would enhance the attractiveness of UK investments for LGPS funds while ensuring they meet their objectives.

However, these should only be incentives that LGPS funds can voluntarily use if they align with the funds' best interests and investment objectives. In considering any requirements aimed at encouraging raising allocations to UK assets, any such effort

would likely conflict with and complicate the fiduciary duty of those responsible for governing LGPS schemes.
LGPS scheme liabilities currently rest with the relevant employers. Therefore, any directives regarding portfolio allocation must carefully consider this fact. Individual LGPS funds are required to consider these liabilities when making investment decisions, focusing on risk-adjusted returns rather than externally imposed targets or aspirations.

The macroeconomic policies of the Government to increase growth are laudable in delivering societal improvements but directing investments by LGPS funds into lower performing assets could lead to the need for higher contribution levels for individual scheme members or employers to ensure adequate funding. With respect to Councils this could be at the expense of services provided for residents.