This response is from UNISON, the UK's largest union with 1.3 million members in jobs meeting the needs of the public. Among these are around 600,000 members of the local government pension scheme, and over 100,000 in DC arrangements working for charities, private companies providing services to public authorities, water and energy companies, and others.

Scheme members will rely on their pensions for a decent living and dignity in retirement. Inadequate pensions will only mean the state having to step in and worse health outcomes. Ensuring decent pensions must always be the primary driver in pensions policy and design.

Most DC scheme members majority fund their pensions from their wages. So any changes must not lead to lower returns or greater costs, which would then have to be met from their contributions, and would reduce the pension they receive.

LGPS pensions are funded by member and employer contributions. UNISON has worked hard to press funds and pools to drive down unnecessary costs, recognising that these mean increased member contributions or reduced member benefits, and the reduction of money available for employers to provide public services. Our focus remains on ensuring investment returns will fund the pension entitlements: pension fund money belongs to the scheme members, not to the Government or their employing authority. It is their deferred wages, held in trust by Funds and members have the right to have a say on how their money is invested.

Scheme members do want their pension funds to do good. They are frequently keenly engaged in campaigning for investment policies that do not support the degradation of the planet, or support Illegal wars and occupations (such as Ukraine and Palestine), or companies which do not respect human or labour rights. Scheme members also want their money to do good for their communities. Here, there is an intersection with the Government's focus on the potential for increased investment in future economic growth. Many scheme members live and work in communities scarred by years of low growth and bad economic policies.

Decisions on investments need to be made by skilled people, whether as trustees or quasi-trustees in the case of the LGPS, with a strong fiduciary duty towards beneficiaries.

The most successful pension systems in the world include member representatives in scheme governance arrangements. This improves oversight and maintains trust in the system, something that will be essential if schemes are to be scaled up and explore increasingly complex or expensive asset classes.

It is important that any consolidated arrangements should support growth in the particular places with which members identify. In this connection, we would strongly oppose any bringing together of Welsh schemes in a pool with English pools. The Welsh Pensions Partnership is at the start of a journey of funding and promoting Welsh economic revival while also delivering strong returns to pay scheme member pensions. This would be impeded if it were pressed into

merger with English entities, especially as those would inevitably be larger in aggregate and hence decision-making would shift out of Wales.

Finally, we note there is great scope for increasing levels of investment in the UK economy by moving beyond individual DC as the default system for saving. Pooling of risk, across groups of people and time, is the way to create appetite for different categories of investment and patient capital approaches. The longer investment horizons of open collective DC and defined benefit schemes mean they are better able to invest in illiquid assets. And so the structural and adequacy questions which will arise in part 2 of the pensions review are a critical element of creating a pensions system that seeks out opportunities for long term investment. Individual DC is just not the optimum vehicle for this type of investment; and this nettle will need to be grasped if the Government is to realise its ambitions in this area.

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?

Investment in less liquid "productive finance" vehicles is not generally in the best interests of individual DC savers, especially those nearer to the point of accessing their savings pots, They need access, transparent valuation of their pot, and minimal leakage to intermediaries. Funds for members of AE schemes should be by default invested in lowest cost tracking fund options, which a plethora of research shows on average deliver better returns than actively managed funds. There are very limited savings accruing to scale here. So few benefits from consolidation.

However where savers actively choose higher-cost investment options, whether for ethical/choice reasons or in the belief that this will deliver better returns, there are advantages to scale. Bargaining power can lead to lower prices from fund managers and the development of in-house expertise at their pension scheme manager reduces the need for (very expensive) outside expertise and reduces the likelihood of bad investment with persuasive salespeople dangling incentives. Funds are likely to need to be large before such benefits are significant.

DC companies are creating innovative ways of enabling DC savers' money to go into illiquid investments. We see these as synthetic and in the interests of the companies providing the access, given the higher leakage to them from saver funds of such investments, not pensioners. There is no real evidence of saver demand for this.

In short we see the risks and benefits as generally marginal; though potentially material in terms of enabling good investment selection in the limited circumstances where active strategies are employed and appropriate. As we say below, a particular area of potential advantage is enabling good assessment of activities or projects with local impact.

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

Single employer trusts can support employer commitment to good levels of contribution, exceeding AE levels, and may be valued by members. Poorly performing trusts ought to be folded into larger, better performing structures, but only where members consent.

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?

We see master trusts as the more appropriate vehicle for future DC pensions. Trustees provide critical governance, which would be further improved with better member representation, required by legislation, as is the case in the 2013 Public Services Pension Act. Member representatives should be full participating trustees, not onlookers. Fiduciary duty of trustees impels consideration of a broad range of investments, including UK productive assets where investable. As we observe elsewhere in this consultation, there is no logical reason why larger consolidated schemes would necessarily invest more in productive finance assets, or that these assets would be in the UK.

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

Consolidation is certainly proceeding apace in the current environment. Market participants will be best placed to answer this.

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?

Whilst we believe that certain pools have better governance, it is not possible to say whether LGPS pooling has been financially successful, in the absence of independent monitoring or evaluation of pool performance against each other or close analogues elsewhere, nor against the performance of assets held by member funds but not invested through the Pool, or against relevant benchmarks. The previous government seemed to accept on trust pronouncements by Pools that they are successful. We believe that a review of Pool performance against agreed metrics, carried out by independent analysts, is the best way for Government to have confidence in further pooling or a particular pooling model.

We note in particular that while several pools are in the early stages of setting up UK-focused alternative investment funds, these are planned to be small, have differences in focus (for example, London CIV plans a London fund; Brunel has instituted a Cornwall-focussed fund, while Borders to Coast intends that the geographical focus is the whole UK) and none promises the size, focus and effectiveness of the existing programme of allocation to local investment undertaken by the Greater Manchester Pension Fund. Pools have had 6 years to get moving on this; the evidence is that the focus and commitment enabled by local control can be more effective. Pools also in several cases lack geographical coherence, which is very unhelpful in terms of enabling focus on particular needs of particular regions.

However, the limited information which is available for analysis suggests that performance has trailed benchmarks. Borders to Coast is properly transparent about the performance of the funds it offers to members, providing fact sheet information on performance. Analysing performance until July 2024, using the factsheet information, shows the following:

Fund	Size of fund July 2024 (£bn)	Relative to benchmark since inception p.a. (%)	Relative to benchmark ytd (%)
UK Listed equity	3.4	0.5	-0.8
Uk listed equity alpha	1.1	-1.01	-0.85
Sterling investment grade credit	3.8	1.11	0.63
Sterling index linked bond	1.7	0.22	0.28
Overseas developed markets equity	7.4	1.77	2.38
Multi-asset credit	3.9	-6.42	-1.72
Listed alternatives	1	-7.57	-9.9
Global equities alpha	6.7	-0.76	-3.99
Emerging markets equity	1.3	-1.46	0.22
Unweighted average		-1.51	-1.53

Sources: fund factsheets published on bordertocoast.org.uk
https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Fund%20Factsheets

Northern LGPS

Northern LGPS shows 9-year returns of 6.6% pa against a benchmarked return for a similar asset mix of 7.2%. Also trails the average LGPS return by 0.1% over the period.
https://northernlgps.org/assets/pdf/CEM_Mar23.pdf

Other Pools do not produce adequate information on investment returns. It is not surprising that performance trails benchmarks, as there is a weight of evidence (for example, the comprehensive, international, 20 years plus SPIVA dataset) that the additional costs created by active strategies mean lower medium and long-term returns than for low-cost tracking instruments, across the spectrum of traded asset classes. While Pools may be paying lower fees than others might do to make such investments, that does not mean they are a sensible investment choice for LGPS funds.

Weaknesses in Pool governance

LGPS funds benefit from member engagement in governance which is not replicated in some Pools, which means considerable differences in practice. Good practice at Borders to Coast means Board Meetings are public, and papers and minutes are published (except for confidential items, the reasons for confidentiality being itemised for each). LPP operate differently: all Board Meetings, shareholder meetings and the annual general meeting are private; no papers, agendas or minutes are published. The other Pools are on the spectrum between these two approaches. Annual reports are very diverse; the Access Pool publishes a ten page report containing no financial data (it does not have formal legal form in that sense), Borders to Coast produces a more comprehensive product but this contains no information on actual investment performance, only on its own spending of money for administrative purposes. Again, other Pools are somewhere in the zone between these two approaches. The Brunel annual report is slightly more useful in terms of describing their investment approach.

Scheme member representation

Levels of member representation on pools are variable and generally inadequate. The Northern LGPS founding documents provide for 3 union-nominated members on their Committee. Borders to Coast have 2 member representatives but neither has voting rights. The London CIV has a single member representative on the shareholder committee. Central LGPS has a single retired member representative on the Committee. Access has no member representation in decision-making structures though member representative in Fund Boards are invited to attend Committee meeting on a revolving basis.

Pools are investing scheme members money, yet members currently have very limited access to information on why or how their money is being invested, never mind any chance to have a say on this . Therefore any future consistent model of pooling needs to have strong member involvement, as well as continued democratic local control over the investment strategy for the assets administered by individual Funds. Those member representatives must be fully empowered participants, with voting and decision-making rights.

Costs 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?

The best choice for DC pensioners is almost always lowest-cost tracker funds; if our focus is on optimising member outcomes., The cost cap has been enormously helpful in ensuring the pension providers provide optimum investment wrappers to members rather than using investment approaches benefitting the provider. There is no contradiction between best member outcomes and lowest cost solutions- both lead to the same conclusion, with maximised pensioner benefits when pensions are taken.

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?

No. In particular not in respect of DC pensions. The higher investment returns available in other asset classes than traded equities/bonds have rested on a now-departed set of circumstances, near-zero interest rates and central bank money creation. There is no case for Government to direct money towards asset categories which are not suited to individual DC savers. We do not understand what is meant by an investment budget in this context.

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?

Whilst we agreed that consolidation would be advantageous for the LGPS in reducing costs and allowing for advantages of scale, we do not see that consolidation of LGPS would necessarily lead to greater net investment in UK assets. LGPS funds now invest more in UK assets than other pension schemes. This proportion has declined over years as funds have sought to diversify investments to reduce risk and meet legislative and regulator requirements.s. Since 2018, the proportion of LGPS funds invested in UK equities has reduced from 12 to 6%.

Sadly returns from UK investments have been paltry compared to those available elsewhere. Over the last five years, the Eurostoxx index has risen by 35%; US stock indexes have increased even more sharply; while the FTSE 250 has increased by less than 3%. Rationally, and acting from fiduciary motivations, funds have reduced their UK holdings and increased holdings of other assets. We do not see that these conditions would be any different for larger funds. We would also note that while LGPS funds have over half of their infrastructure investment in UK assets, the comparative figure for Canadian funds (which seem to be seen as role models) is less than 10%. There is no evidence that larger funds will want to invest more in UK assets, since evidence suggests that scale means they are better able to seek out larger investment opportunities over a wider geography.

If Government acted in such a way that investment became more attractive, for example by enabling Great British Energy or the British Business Bank to package together projects or investments so that they did collectively offer attractive risk/reward propositions, that would enable higher levels of investment. If The Government wanted this investment to itself be British, UK funds would need reasons to prefer these compared to other investors; Canadian, Australian or other funds might be equally happy to make such investments.

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?

Different factors apply to different classes of assets.

Firstly, **funds have looked to diversify** their asset holdings for risk reduction reasons. The very heavy weighting of UK equities in the mix in the 19990s was a product of history; these had been the assets that fund managers were comfortable with and understood. As markets have globalised so have the outlooks of fund managers. The same process is now underway in Australia, where pension funds are consciously looking to diversify holdings (this

notwithstanding the generally strong performance of the Australian economy and equities over recent years).

All assets have been affected by a **generally poor investment outlook** in the UK for many years. The FTSE has delivered poor returns in comparison to other markets (especially but not only the US). So a move out of UK equities has been impelled by fiduciary considerations.

Regulatory decisions over time by governments and the Pensions Regulator have pushed funds from equities into gilts, as TPR requires conservative investment choices and a reduction of reliance on sponsors, especially for closed DB schemes. Closed DB schemes are rewarded by the regulator for reducing equity investment to or near zero. And open DB schemes are encouraged by the regulator to close; while schemes running on are encouraged to seek an end-game, with inevitably more conservative investment choices.

Political instability and a lack of long-term stable investment planning for public goods has impeded investment in infrastructure projects. There have not been good investable projects available. Until the risk/reward consideration is right, funds with fiduciary considerations will not and should not invest.

UK Private Equity is very expensive for investors, illiquid and has not delivered good returns. This is not an attractive combination for LGPS funds. If charges by managers were less elevated, and they had more attractive opportunities, LGPS funds would increase investment. It is problem of the investment propositions, not the investors. LGPS funds have in fact increased the proportion of alternatives in their investment mix from 7 to 17% since 2014. They have no inhibition or impediment preventing investing in any good prospect. But they rightly will not pay fees that mean that the upside is taken by an intermediary.

We do not see that cost has particularly been a consideration, especially for the LGPS which has no cost capping regime. Though there is occasional bleating about stamp duty, and obviously funds would like not to pay it, LGPS investments are long-term on the whole; it is not material unless funds are inappropriately over-trading. Funds have increasingly invested in expensive investment categories, such as private equity, unlisted shares, real estate, etc. That explains the increase in costs in the LGPS in recent years – the asset mix has shifted.

LGPS has had a larger component of “productive” assets in its mix than other types of pension scheme and the gap continues to widen. Open DB schemes have the combination of attributes which enable investment into long-term projects and illiquids. If Government wants more such investment, it should be encouraging DB schemes to remain open by all available means. By contrast, individual DC requires the constant availability of funds by individuals, and as retirement age approaches, requires funds to be moved in safe but unproductive investment to avoid the risk of very bad outcomes. DC pensions are structurally very ill-suited to illiquid investment vehicles; if the Government wants more such investment, it should shift focus of AE saving to Collective Defined Contribution arrangements. We will be arguing for this in part 2 of the pensions review.

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?

We do not see the case for fiscal incentives. LGPS members are also taxpayers and there are many better uses of tax revenue than paying pension funds to make particular investment choices – particularly as a large proportion of any incentive would be simply paying funds to make decisions they would anyway make- they will want to have some UK assets in their mix.

We were particularly concerned by the previous government's proposals to mandate the holding of particular levels of particular asset classes. This must be left to the fiduciary judgement of funds. The correct balance of asset classes will differ from fund to fund, depending on liability mix and funding level, will vary over time, and will never be the same across different funds as a given central government requirement.

It will often be the case that improving saver outcomes and boosting UK growth press in different directions. It is important that when considering potential policy instruments, advisers disentangle these two ideas and understand where they reinforce and where they contradict each other.

We do see the potential for higher levels of "impact" investment by LGPS funds. Funds are rooted in a particular place and contributions are made by workers and employers in that place. It is right that funds should seek out good investment opportunities which would have positive impact where they are based. This might include energy projects, housing including social housing, and support for growing or fledgling business. Greater Manchester Pension Fund is an exemplar of such activity, having achieved excellent returns from backing projects which also had positive employment, social and physical fabric impacts. We would see that here is an area where Pools could play a key role in performing diligence on potential investments to provide confidence to funds to invest. Most Funds are too small to develop such competence themselves.

We would see that local impact investment should be encouraged including through such mechanisms as requiring reporting on levels of such investment by Funds, but that requiring that a particular proportion of investment be locally impactful would not be useful – all investments must be risk-reward justified, and so requiring investment even in the absence of suitable projects would be an error. We would also see that institutions such as the British Business Bank and Great British Energy should look to develop investment opportunities across the UK, and work to make these investable by LGPS funds.

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