

LGPS guidance: asset pooling



Iain Campbell
Partner – Investment DB

The government has published three pieces of statutory guidance on the implementation of the Fit for the Future reforms. These cover pooling, the investment strategy statement (ISS) and governance. The guidance provides long-awaited detail on how funds and pools should be implementing the reforms. We provide a summary of the [pooling guidance](#) below.

Pooling

The strategic role of administering authorities (AAs)

A central theme is that AAs retain strategic responsibility for investment outcomes. Pooling does not remove fiduciary duty or accountability. Instead, AAs must:

- Update their Investment Strategy Statement (ISS), including the strategic asset allocation.
- Determine the types of investment products they require from the pool.
- Monitor the pool's performance, governance, costs and risk management.
- Ensure pooling delivers value for money and complies with regulations.

The operational role of asset pools

Asset pools are responsible for implementing the investment strategies set by administering authorities. Their duties include:

- Designing and maintaining investment products that meet fund requirements.
- Selecting and overseeing external managers.
- Managing risk, compliance and reporting.
- Delivering transparent cost information and performance analytics.
- Ensuring strong governance and operational resilience.

Pools must operate as professional investment organisations, with appropriate staffing, systems and controls. They must also demonstrate continuous improvement and efficiency.

Governance expectations

The guidance emphasises governance quality. Key expectations include:

Clear decision-making structures

AAs must document how decisions relating to pooling are made, including roles of committees, officers and advisers.

Formal agreements

AAs and pools must have legally robust agreements covering service delivery, cost-sharing, reporting, and escalation and dispute resolution.

Local pension boards

Boards must be able to scrutinise pooling arrangements effectively. They should receive regular reports on pool performance, costs, risk and compliance.

Transparency

Both AAs and pools must publish clear information on governance structures, investment products, performance, costs and fees.

It's stated that employers' views should be considered, but how that is done is a local matter.

Pool oversight

Funds should hold their pools to account on a wide range of areas, including performance and costs:

- The LGPS Senior Officer and Independent Person will play key roles.
- Funds should monitor performance through regular data and reports from the pool. Additional support may be sought.
- Cost data must be reported in line with the LGPS Code of Transparency and Cost Transparency Initiative. The level of detail is to be agreed at a local level.
- Funds should collectively consider how the pool's overall performance is reviewed. The oversight model should be developed in conjunction with the pool but owned separately by the collective funds. The funds may use a third party to conduct a fiduciary management review of the pool's performance. This should take place as required and should be proportionate.
- Governance arrangements should also set out clearly the recourse options if AAs are concerned about pool performance.

Requirement for funds to take principal advice from their asset pool company

Funds must take principal advice from their pool and pools must have the capability to deliver advice. This advice should be based on funds' best interests, not steered by what the pool can deliver inhouse.

Funds shouldn't routinely test pool advice against other advisers, unless there are exceptional circumstances including:

- Where a pool advises moving "substantially" into a new asset class or investment approach.
- Where a pool has said that it is not possible to implement an investment strategy, including RI policy.

Challenges to advice shouldn't happen more than once in a valuation cycle. Alternative/additional advice should also be procured collectively by funds where possible.

Reporting and transparency requirements

AAs must report on progress in pooling, use of pool products, costs and savings, performance relative to strategic objectives, and governance and oversight arrangements. This reporting must be included in annual reports, ISS updates and communications with Local Pension Boards.

Pools must provide quarterly and annual performance reports; cost transparency, using standardised templates; risk and compliance reporting; and product-level information (mandates, benchmarks, fees, risk metrics). Authorities must ensure they receive sufficient information to fulfil their fiduciary duties.

Cost transparency, value for money and pool resourcing

A major focus of the guidance is ensuring pooling delivers value for money. Funds within a pool must agree how to share costs, and non-shareholders must be treated equitably. Cost information must be transparent.

AAs must assess:

- Total investment costs (including hidden fees)
- Cost savings achieved through pooling
- Performance net of fees
- Operational efficiency of the pool

Pools must:

- Use standardised cost templates
- Provide full fee disclosure
- Demonstrate economies of scale
- Show how they are reducing costs over time

Authorities must challenge pools where value for money is not demonstrated. Meanwhile, funds must ensure their pool is adequately resourced to fulfil their role. Funds and pools should give due consideration to scale and value for money when considering resourcing and location strategies, including opportunities for cross-pool collaboration and sharing of expertise.

Risk management and compliance

The guidance requires robust risk-management frameworks.

AAs must ensure:

- Pool products align with their risk appetite
- They understand the risks of each product
- They receive regular risk reporting

Pools must ensure:

- Strong internal controls
- Regulatory compliance
- Operational resilience
- Clear risk metrics and limits
- Effective oversight of external managers

Authorities must scrutinise pool risk frameworks and ensure they are fit for purpose.

Responsible Investment (RI) and stewardship

AAs must:

- Set RI policies in their ISS
- Ensure pool products allow them to implement those policies
- Monitor stewardship outcomes

Pools must:

- Integrate RI into product design and manager selection
- Provide stewardship reporting
- Engage collaboratively with companies and managers

The guidance expects alignment between authority policies and pool implementation.

Local investment

The guidance clarifies the definition that “local” is interchangeable with “regional”. Investments in the “surrounding areas” of the place defined as “local” can also count if they benefit the people in the local area. Funds should work together and with the pool to achieve alignment “wherever possible”, including similar geographies, asset classes and sectors, to achieve scale.

Working with strategic authorities can be delegated to the pool, which is described as “likely to be the most effective and efficient approach”. If a fund doesn’t have a strategic authority, they don’t have to work with one to find opportunities, but it is expected they will work with their local authorities instead. Pools are not restricted to only investing in opportunities found in strategic authority pipelines.

The requirement to ‘identify and develop’ projects doesn’t mean funds or pools must help to design them. However, they should help to inform strategic authorities what they would look like to make them an attractive pension scheme investment.

Funds should work with their pools to set minimum investment sizes.

Pools and funds must report annually on their local investments in their annual report, including the total value and information on their real-world impact and contribution to regional economic development, based on information provided by their pool.

Key considerations for funds

To summarise the practical implications:

- AAs must participate in one FCA-authorized asset pool company, either as a shareholder or a client, with only a short transitional period allowed when switching pools. This does not prevent pools from investing in each other's products.
- Pools become the decision-maker on investment implementation. Once assets are transitioned, the pool makes all buy/hold/sell decisions, including for legacy assets. This requires strong oversight mechanisms from AAs.
- Pools are required to have FCA authorisation before pools manage assets, and officers must ensure their pool is progressing toward full-scope UK AIFM authorisation ahead of statutory deadlines.
- Oversight and challenge remain essential despite limits. The guidance acknowledges the need for funds to challenge and oversee pools, even as certain oversight practices are restricted. Officers must develop governance approaches that remain effective within these boundaries.
- Scale benefits may override individual fund preferences. Pools must consider partner fund preferences stated in ISSs but may override them to maximise benefits of scale. Officers must understand how this may affect strategic implementation.
- The guidance sets detailed expectations for pool reporting (performance, costs, risk) and for fund governance structures that enable effective scrutiny. Officers must ensure these mechanisms are in place and functioning.

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