

## PAF – Investment Working Group (IWG) Update

The Investment Working Group (IWG) has continued to meet monthly over the last six months with representation from Officers of all 8 Partner Funds, together with multiple attendees from LGPS Central Limited (LGPSC), dependent on the Agenda and other items for discussion and development.

Meetings have followed a similar format thus far, beginning with Partner Fund discussions on Strategic Asset Allocation (SAA) and the potential for shared investment opportunities; specifically, in the Alternatives space, where it is recognised that LGPSC may not be able to provide a sub-fund in the short to medium term. Product Development, given the combined investment priorities identified by the Partner Funds in December 2018, has been the main discussion topic with LGPSC.

Members of IWG, alongside Members of the Client Oversight and Governance Working Group (COGG) have been instrumental in the development of a Product Development Protocol (PDP) with LGPSC. This is a 9 Phase approach which documents the various stages of developing any new sub-fund, beginning with a strategy discussion at IWG and ultimately ending with the transition of assets into the sub-fund. Key to the PDP, however, is that at every Phase there is a 'client touch-point' for LGPSC which ensures that Partner Fund's (and their Advisors) continue to buy-into the product being developed and the investment managers appointed as part of the procurement process. If a Partner Fund (and their Advisors) or LGPSC are not in complete agreement, then the development of the product or procurement stage does not proceed to the next Phase, or it may be that the previous Phase gets revisited. Whilst this may seem onerous and bureaucratic and is likely to take 6-9 months in totality, it will ensure that sub-funds are launched with information being made available to all parties and within the full knowledge of all Partner Funds (and their Advisors). It should also ensure that the maximum assets available are invested. In general in going through this process, the only reason not to invest, for a Partner Fund interested at the outset, should be because of a change in their SAA.

Over the last six months, IWG has been focussed on the transitions of the:

- Global Active Equity Multi-Manager sub-fund; and
- Global Emerging Market Equity Multi-Manager sub-fund.

And has approved Business Plans for the:

- Global Corporate Bond sub-fund;
- Master Private Equity Pooling Partnership LP vehicle;
- Low Carbon Multi Factor sub-fund.

IWG's ongoing work includes:

- Development of the Infrastructure sub-fund;
- Development of the Multi-Factor sub-fund;
- Development of the Multi-Asset Credit sub-fund;
- Development of the Emerging Market Debt sub-fund

Papers have also been received from LGPSC on:

- The case for investing in Global Smaller Companies; and
- The case for a 2% capped UK benchmark.

Collaborating with IWG, LGPSC appointed both a Transition Advisor and a Transition Manager to assist with the transition of Partner Funds' assets into the Active External Global Equity Multi Manager sub-fund in March 2019. The Product Development Liaison Group (PDLG) was formed as part of this process.

PDLG consisted of a weekly 9am conference call on a Thursday morning with all interested parties involved; this included Partner Funds, the Transition Advisor and Transition Manager, Company representatives and Northern Trust as Depositary. All involved agreed this was a positive way to communicate and thus ensure a successful outcome to an extremely complicated multi-stakeholder transition. The PDLG format will be repeated with the Global Emerging Market Equity and Global Corporate Bond sub-funds in due course.

Given that LGPSC has been fully operational for over 12 months and now has considerable assets under management (AUM) the role of IWG needs to adapt. This became apparent in developing the PDP and it has been agreed that as well as Product Development and Investment Strategy, IWG has a significant role to play in monitoring Investment Performance, both performance of the individual sub-funds and the value add of LGPSC. To facilitate this, in April 2019, IWG meetings moved to a new quarterly cycle whereby the focus changes each month:

- Month 1 (Jan, Apr, Jul, Oct) – Product Development
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

Following Partner Fund's 2019 Actuarial Valuations and subsequent reviews of Investment Strategy, the IWG in September 2019 will be dedicated to Strategic Asset Allocation and agreeing the collective investment priorities of the Partner Funds with LGPSC to inform the product development, workplan and business case for the LGPS Central pool in 2020/21.