

PENSIONS BOARD

17 NOVEMBER 2021

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends the Board note and comment on the LGPS Central update provided.**

Background

2. The government set out in 2014 its approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPS Central. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1 April 2018.

3. LGPS Central has been in operation since the 1 April 2018 and several local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019 and its Active Corporate Bond Fund into the LGPS Central 'Global active Investment Grade Corporate Bond Fund in March 2020.

Transition of existing Assets and investment in LGPS Central investment products

4. Investment Sub Committee on the 20 September agreed an indicative £30m per annum for the next 2 years into LGPS Central Infrastructure strategy subject to due diligence and also agreed to come out of our LGIM Passive Low volatility factor fund circa £200m and transition this into the LGPS Central All World Climate Factor Passive Fund. This is due to take place on the 24 November 2021.

5. The Fund is presently looking at LGPS Central Global Sustainable Active Equity Fund and LGPS Central have now appointed 3 managers. Members have been invited to hear the presentations from each Fund manager on the 17 November 2021 and then further considered at the Investment Sub Committee on the 24 November 2021.

LGPS Central Strategic Business Plan & proposed budget for 2022/23.

6. There have been initial discussions with LGPS Central on their proposed budget and Strategic Business Plan for 2022/23 and a plan for a series of discussions on their proposals was agreed at PAF in September 2021 and it is hoped that the Budget can be initially agreed by partner funds by the end of December to then present the outcome to the Pensions Committee on 2 February 2022.

7. This is being discussed in detail at the partner funds Finance Working Group and also there are 2 All Parties meetings planned for the 8 November and the 16 December to help come to an agreement on the proposed budget and business plan.

8. As the need for new products diminishes the company focus will begin to focus more on 'business as usual' operations and looking at new ways to support efficiency, resilience and cost effectiveness.

September Company Meeting 28 September 2021

9. The meeting was held on the 28 September 2021 where the Chair updated the shareholders on the Non-Executive Directors succession planning and Board continuity. her commitment.

10. The Proposed shareholder resolutions covered the following and were agreed.

September annual resolutions

- Adoption of company report and accounts
- Reappointment of auditors
- Auditors remuneration
- Re-election of Directors

Technical resolutions

- Replacement of LIBOR
- Pension supplementary agreement

Resolutions withdrawn from February 2020 meeting

- Directors remuneration

11. Discussions continue to agree a way forward which clarifies responsibilities for staff benefits framework and the mechanism for delivery of additional budget approval for agreed new fund launch business cases being

- Private Equity
- Global Sustainable Equities
- Target Return
- Responsible Investment & Engagement (RI&E) additional analytical tools

Ministry of Health, Communities and Local Government (MHCLG) Return

12. An update was provided to the last Board on this 'Pooling' progress return submitted to MHCLG as it was known then by the agreed deadline of the 24 September.

13. Whilst cost savings are a key focus area for the Partner Funds and LGPSC Ltd, and they can be clearly evidenced as this return demonstrates, there remains a strong emphasis amongst all pool members on overall investment performance; ultimately it is the delivery of investment returns that will aid in stabilising employer contributions and ensuring that pensions can be paid to members as and when they fall due

14. The submission showed a like for like increase of assets under LCPSC Ltd management/stewardship to £22.2bn at 31 March 2021 from £17.3bn at 31 March 2020 (July 2021: £24.1bn, July 2020: 19.5bn) (this includes assets invested directly in LPGSC Ltd products, as well as those under discretionary and advisory agreements).

15. It should be noted that this is a snapshot at a point in time based on indicative future investment requirements and asset allocation plans. Both Partner Fund requirements, and Pool collaboration, investment services and sub-funds, will continue to evolve, which may impact both the timing and amount of assets transferring to LGPSC Ltd management/stewardship and therefore the potential cost savings.

Staffing

16. An interim Chief Legal Compliance & Risk Officer has been appointed and the recruitment process is at the first stage of interviews for the permanent appointment to this post and the Chief stakeholder officer. LGPS Central have also looking appointed to the Communication Manager role and are in the last stages of interview for the additional posts within the RI&E team being a manager and senior analyst.

17. LGPS Central have also taken on 6 graduates which was a successful process for them last time.

Office Accommodation

18. The company have now signed their lease agreement to move into the new I9 building in Wolverhampton and are looking to move during December 2021.

Practitioner Advisory Forum (PAF) Working Groups

19. PAF have a number of Work streams which meet regularly and aims to work closely with LGPS Central to ensure that all the funds requirements are met. These are

- Governance Working Group (next meeting 11 November)
- Investment Working Group (Meet Monthly)
- Responsible Investment Working Group (Next meeting 9 November)
- Finance Working Group. (Meeting 1 November)

20. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint Committee, individual partner funds, and their respective external auditors to be satisfied on the standards of control operating across the pool. There will be 2 separate audits taking place, one focusing on investments and the other on governance.

Investment Working Group

21. It is worth just updating the Board on the focus of the Investment Working Group. The quarterly meeting cycle, with a change in focus each month, continues to work well.

- 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

22. The following table illustrates the new products that are currently in progress and indicates the next step in the process of their development. The areas highlighted are those where we have an interest in potential future investment as they fit into our Strategic Asset Allocation plan.

2020/21 and 2021/22 Products	Next Step (as at October 2021)
Private Equity (2021 Vintage)	<i>Launched</i>
Direct Property	<i>Manager Procurement pending</i>
Global Sustainable Active Equities	<i>Managers Appointed</i>
Private Debt	<i>LAUNCHED with first close of low risk sleeve</i>
Targeted Return	<i>Procurement process underway</i>
Indirect Property	<i>Product Development</i>

23. The products to be developed in 2022/23 were collectively agreed by Partner Funds at their next SAA Day on the 16 September 2021. As most sub-funds, which have targeted the higher levels of assets under management (AUM), have now been launched or in progress, the focus will ensure that these are delivered.

Contact Points

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

- LGPS Central business case submission to government 15 July 2016.