

## **PENSIONS BOARD**

### **7 MARCH 2022**

## **LOCAL GOVERNMENT PENSION SCHEME (LGPS)**

### **CENTRAL UPDATE**

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#### **Recommendation**

1. **The Chief Financial Officer recommends the LGPS Central update be noted.**

#### **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 the 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, its Active Corporate Bond Fund into the LGPS Central 'Global active Investment Grade Corporate Bond Fund in March 2020 and more recently in November 2021 a £200m investment into the LGPSC All World Climate Factor Passive Fund

#### **Transition of existing Assets and investment in LGPSC investment products**

4. Investment Sub Committee have agreed an indicative £30m per annum for the next 2 years into LGPSC Infrastructure strategy subject to due diligence. The fund is also in the process of transitioning around £200m into LGPSC Global Sustainable Active Equity Fund for which LGPSC have appointed 3 managers. Investment Sub Committee on the 24 November 2021 agreed to invest with 2 out of the 3 managers being Liontrust and Baillie Gifford.

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

5. The proposed budget and business plan was presented to Pensions Committee on the 2 February 2022 and whilst there was some concern regarding the pay envelope this was delegated to the Shareholder to take forward. The Shareholders and company meeting was on the 22 February 2022 and the budget and business plan received unanimous agreement from the 8 partner funds who have an equal shareholding.

6. The budget agreed for financial year 2022/23 is **£13.495m**, compared to **£12.355m** in 2021/22 **an increase of 9.2%**. This is made up of a 4.9% inflation adjusted fixed budget of £11.202m plus individual permanent variations totalling £0.387m and specific AUM costs of £1.906m.

7. The costs of the company are shared out between the 8 partner funds based on a cost sharing model provided by LGPSC and agreed between the partner funds. The Table below shows the forecast costs of £0.777M that will be incurred by WPF in 2022/23 being an increase of 5.7% overall.

**Table 2: Estimated LGPSC Cost Sharing allocation 2022/23**

Partner Fund	2021/22 Budget (£)	2022/23 Draft Budget (£)	Change (£)	GOPD (£)	IMMC (£)	Diff (£)
PF 1	1,402,829	1,533,539	130,709	27,995	102,714	-
PF 2	1,005,391	1,105,301	99,910	26,743	73,167	0
PF 3	1,345,123	1,562,936	217,812	26,343	191,470	-
PF 4	1,069,185	1,197,439	128,254	27,223	101,031	0
PF 5	532,988	734,741	201,753	23,200	178,553	-
PF 6	1,274,232	1,346,684	72,452	27,490	44,962	-
PF 7	4,763,020	5,110,151	347,131	41,692	305,439	(0)
PF 8	39,076	39,423	346	346	-	0
Worcestershire	734,945	777,209	42,264	24,366	17,898	-
Unallocated	188,210	87,578	(100,632)	-	(100,632)	-
<b>Charge exc. Mark-Up</b>	<b>12,355,000</b>	<b>13,495,000</b>	<b>1,140,000</b>	<b>225,398</b>	<b>914,602</b>	<b>(0)</b>

❖ *GOPD = Governance, Operational & Product Development costs*

❖ *IMMC = Investment Management & Monitoring Charges*

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.

### February Company Meeting 22 February 2022

9. The meeting was held on the 22 February 2022 and the proposed shareholder resolutions covered the following and all were agreed apart from resolutions 4 to 6. Some shareholders wanted more clarity on the remuneration and benefits policy and there is planned further dialogue with shareholders to look to get these approved hopefully during March 2022.

1	Approval of the Appointment of an External Auditor
2	Approval of the Board development plan and the succession of Non-Executive Directors
3	Approval of the Strategic Plan (which includes a proposed budget) and Regulatory Capital Statement for the period 1 April 2022 to 31 March 2023
4	Approval of the Executive Directors Remuneration and Benefits Policy
5	Approval of the Non-Executive Directors Remuneration and Benefits Policy
6	Approval of the individual remuneration packages for the Chair and Directors.
7	Articles of Association

### **Staffing**

10. Although the recruitment market is very competitive at the moment, LGPSC have managed to recruit to a number of vacant posts. An interim Chief Legal Compliance & Risk Officer has been appointed and the recruitment process is now at the second stage of interviews for the permanent appointment to this post. LGPSC have also appointed a Communication Manager role as well as a number of additional posts within the RI&E team being a manager and senior analyst.

### **Office Accommodation**

11. The company have now signed their lease agreement and have moved into the new I9 building in Wolverhampton.

### **Practitioner Advisory Forum (PAF) Working Groups**

12. 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 (meeting monthly)
- Investment Working Group (IWG) (Meet Monthly)
- Responsible Investment Working Group (Now part of IWG and discussed quarterly)
- Finance Working Group. (Meetings as and when required)

13. 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**

14. It is worth just updating the Committee 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 & Responsible Investment.
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

15. 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.

<b>2020/21 and 2021/22 Products</b>	<b>Next Step (as at January 2022)</b>
Private Equity (2021 Vintage)	<i>Launched</i>
Direct Property	<i>Manager Procurement completed</i>
Global Sustainable Active Equities	<i>Managers Appointed and transition meeting</i>
Private Debt	<i>Launched</i>
Targeted Return	<i>Procurement process underway</i>
Indirect Property	<i>Product Development focussing on residential property in first tranche</i>

16. 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:

- LGPSC Budget and strategic business plan - Pension Committee 2 February 2022
- LGPS Central business case submission to government 15 July 2016.