

PENSIONS BOARD

7 JUNE 2022

LOCAL GOVERNMENT PENSION SCHEME (LGPS) CENTRAL UPDATE

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. Pension Investment Sub Committee have agreed an indicative £30m per annum for the next 2 years into LGPSC Infrastructure strategy subject to due diligence.

5. The fund transitioned £201m on the 3 May 2022 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 (£121.0m) and Baillie Gifford (80.0m).

6. The estimated cost of the transition was £1.069m and the final transition costs were £0.972m equating to 0.483% (48.3 basis points).

7. Four Partner Funds, including this Fund, have transitioned assets into the Fund totalling £1.009bn.

February Company Follow on meeting 4 April 2022

8. As reported to the last Board, the company 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 it was agreed that further dialogue would take place to look to reach agreement.

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

9. A further company meeting was held on the 4 April 2022 with shareholders which agreed the resolutions 4 to 6 after the following changes were made to the 'Remuneration and Benefits Principles':

Culture & Purpose

LGPS Central Limited is a local authority owned company whilst also being a regulated entity and is committed to maintaining a strong public sector ethos. Care is always taken to ensure value for money in the use of all public expenditure. This is balanced by the need to attract and retain high quality staff in an investment management company requiring many of the skills which are in great demand in private sector financial services and investment management companies. The company occupies a unique hybrid position, and a balance needs to be struck between the different approaches to pay and remuneration

Long-term attraction, retention and motivation of staff

Remuneration and benefits are considered and reviewed by reference to a peer group, that includes amongst others; other LGPS pooling companies, publicly owned financial services/pensions companies e.g., NS&I/NEST, local authority and chief officer pay and annual pay awards, private sector investment management companies, and pension funds.

Staffing

10. The recruitment market continues to be very competitive at the moment. LGPSC have managed to recruit a Chief Legal Compliance & Risk Officer Struan Fairbairn who will be starting mid-September which is a key post for the company. However, over the last few months LGPSC has seen a number of postholders hand in their notice whilst at the same time have been successful in recruiting to a number of posts. This shows the continuing turbulent nature of the recruitment market at the moment.

LGPSC Presentation at the next Pensions Committee 28 June 2022

11. LGPSC will be presenting an update on the company to the Committee on the 28 June 2022.

Office Accommodation

12. The company have now moved into the new I9 building in Wolverhampton.

Practitioner Advisory Forum (PAF) Working Groups

13. 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 and chaired by Worcestershire)
- 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)

14. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint Committee (next meeting the 23 June 2022), 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 (Led by Leicestershire) and the other on governance (led by Worcestershire).

Investment Working Group

15. 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

16. 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 May 2022)
Private Equity (2021 Vintage)	<i>Launched</i>
Direct Property	<i>Launched</i>
Global Sustainable Active Equities	<i>Launched</i>
Private Debt	<i>Launched</i>
Targeted Return	<i>Launched</i>
Indirect Property	<i>Product Development focussing on residential property in first tranche</i>

17. 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.