

PENSIONS COMMITTEE

13 OCTOBER 2022

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends the Pension Committee 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.

4. More recently in November 2021, a £200m investment into the LGPSC All World Climate Factor Passive Fund and in May 2022 a £200m into the LGPSC Global Sustainable active Fund was made..

Transition of existing Assets and investment in LGPSC investment products

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

6. The Fund transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019. This is now subject to a 3 year review which is being conducted by LGPSC. This funds performance has not been particularly good since inception being -0.65% which is 4.93% below its target as at the end of July 2022 and we await the review findings and recommendations.

Next Company Annual General Meeting on meeting 27 September 2022

7. The next company meeting was on the 27 September and the proposed shareholder resolutions that were all agreed at the meeting are detailed below.

No	Proposed Resolution
1	Adoption of the Company Report and Accounts for the year ended 31 March 2022
2	Approval of the Re-appointment of Deloitte LLP as external Auditor of the Company
3	Authorisation of the Committee to agree the external Auditor's remuneration
4	Approval of the re-election of Directors

8. An informal meeting and training was provided for Shareholders on the 25 August at the new I9 Building in Wolverhampton

Staffing

9. 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.

10. However, the last few months LGPSC has seen a number of posts hand in their notice whilst at the same time have been successful in recruiting to a number of posts. The successful hires include an Investment Operations Manager, Responsible Investment Integration Manager, Chief Stakeholder Officer and Compliance Manager. It remains a highly competitive recruitment market with principle candidate concerns around Remuneration and benefits packages and Location & flexible working.

LGPSC Strategic Business Plan and Budget for 2022.23

11. Discussions have begun on the LGPSC Strategic Business Plan and Budget for 2022.23 and this is due to be approved at the company meeting in February 2023. Further updates will be provided as to the progress at future meetings.

LGPSC Investment Pool

12. Annually each Pension Pool has to provide a return which shows the level of Pool investment by partner funds in terms of the 31 March 2022 and the forecast level of Pool investment each year up to 31 March 2025. Also provided within the return are the LGPSC are the forecast level of pool savings that have been made. The submission was submitted on the 23 September to the Department for Levelling up, Housing and Communities (DLUHC).

13. The covering note to the submission highlighted the following:-

- a) *Whilst cost savings are a key focus area for the Partner Funds and LGPSC Limited, 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.*
- b) *Like for like increase of assets invested directly in LGPSC Limited ACS sub-funds and other collective investment vehicles, with assets under management of £16.7bn in March 2022, up from £13.6bn at 31st March 2021. Total assets under stewardship (including partnerships at commitment value, discretionary and advisory mandates in addition to the ACS) stood at £28.5bn at 31st March 2022, up from £22.2bn at 31st March 2021.*

- c) Life fund and sustainable equity framework savings have been incorporated as separate lines in the overall savings to show additional benefits of collaborative working and initial fee savings from joint procurement within the investment pool, generated outside of LGPSC Limited.
 - d) *Services developed and provided within the pool including discretionary and advisory mandates and delivery of climate risk analysis by LGPSC Limited do not attract any direct investment management fee savings but have provided Partner Funds with access to cost-effective shared resource and support. In its second year of completing Climate Risk Reports for all Partner Funds and covering assets under LGPSC Limited management and those outside, the pool is well placed to respond to the Government's call for the LGPS to increase Governance and Reporting of Climate Change Risks (consultation September 2022). The company's climate risk reporting covers 95% of the Partner Funds' public equities and 40% of their listed fixed income assets.*
 - e) *Investment management fee savings are now expected to be greater than originally forecast. These more than offset operating costs of the Company which are also now higher than first anticipated. The estimated cumulative net savings figure is now £307m by 2033/34. The break-even point is projected to be 2023/24.*
 - f) *Investment cost savings are not evenly distributed across Partner Funds, and some therefore may see limited to no net cost savings under current projections. However, Partner Funds recognise the collective benefits of working with a regulated pool operator and the associated governance framework.*
14. The submission forecasts that by 2025 Worcestershire Pension Fund will have approximately 38% of its Assets under Management with LGPSC. This is the lowest forecast by the Partner Funds. However, this does not include the Life Funds (see 13 c) above) that we hold with LGIM and if this were included we would have 62% of our assets 'Pooled'.

Practitioner Advisory Forum (PAF) Working Groups

15. 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)

16. 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 11 November 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

17. 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.

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

18. 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 August 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>

19. 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.

20. There was a further SAA Day planned on the 15 September 2022 and the initial requests to the company which will help form actions in the 2023/24 Strategic Business Plan were as follows:

Category A – Ongoing Priorities

1. Performance of existing products
2. Continuous RI&E Enhancements / Scope 3 and Private Markets Reporting etc
3. Products in development
 - Targeted Return
 - Direct Property
 - Indirect Property (overseas & residential)
 - Schroders Equity pathway (NPF)
 - Infrastructure - JPM investment transfers

Category B – 2023/24 Priorities

1. Private Credit – review availability of a fund vehicle for 2023/24
2. Private Equity - review availability of a fund vehicle for 2023/24
3. Carbon Targets / Metrics (TCFD etc) – scope and potential for alignment across Partner Funds

Contact Points

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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.