

PENSIONS COMMITTEE

13 DECEMBER 2022

LOCAL GOVERNMENT PENSION SCHEME CENTRAL (LGPSC) UPDATE

Recommendation

1. **The Chief Financial Officer recommends the LGPS Central update and the presentation attached as an Appendix 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 LGPSC. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1 April 2018.

3. LGPSC 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 LGPSC's Global Active Emerging Market managed mandate in July 2019, its Active Corporate Bond Fund into the LGPSC 'Global active Investment Grade Corporate Bond Fund in March 2020, a £200m investment into the LGPSC All World Climate Factor Passive Fund in November 2021 and more recently £200m to a Global sustainable active equity Fund.

Transition of existing Assets and investment in LGPSC investment products

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

5. The Fund transferred its Active Emerging Market funds into the LGPSC 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 fund's performance has not been particularly good since inception being -1.3% which is 5.00% below its target as at the end of September 2022 and we await the review findings and recommendations.

Next Company Annual General Meeting on meeting 28 February 2023

6. The next company meeting is on the 28 February and this will mainly cover the Strategic Business Plan and Budget for 2023/24. At a recent meeting Shareholders approved the appointment of 2 replacement non-executive directors.

Staffing

7. LGPSC have managed to recruit to their key posts although 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

8. 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 Presentation (Appendix)

9. Representatives of LGPSC will be attending the meeting and have provided a presentation for the meeting and covers:-

- a) *LGPS Central Limited update*
- b) *Key areas of focus*
- c) *Key performance indicators*
- d) *Investment performance*
- e) *Holding managers to account*
- f) *LGPS Central Private market capabilities*
- g) *Responsible Investment and Engagement*

Practitioner Advisory Forum (PAF) Working Groups

10. 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)

11. 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

12. 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

13. 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>

14. 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.

15. 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.

16. Please note that the Appendix contains exempt information (on salmon pages) and should members wish to discuss the information included in these Appendices they would need to consider passing the appropriate resolution and moving into exempt session.

Supporting information

Appendix - LGPSC Presentation (**Exempt Information – Salmon pages**)

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.