

PENSIONS BOARD

3 MARCH 2023

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends the Pension Board note the LGPS Central update.**

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, 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. 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 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 fund's performance has not been particularly good since inception being -1.0% which is 4.90% below its target as at the end of December 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.

7. A number of dedicated meetings with representatives from the company, shareholders, Chief Officers and Fund officers have been undertaken using the same set of principles that were used to agree the LGPSC budget and Strategic Business Plan

for 2022/23 with the last meeting with PAF and Shareholders being on the 6 January 2023.

8. At the Pension Committee meeting on the 8 February, the draft LGPSC 2023/24 Budget & Business Plan attached as Appendix 1 details the proposed budget put forward totalling £15.154m (page 13) including a vacancy factor of £357k, being a 12.3% increase on the previous year. Excluding the vacancy factor the budget would be £15.511m an increase of 14.9%. Brief details of the reasons for the proposed increase are also provided.

LGPSC Proposed Strategic Business Plan (SBP) 2023/24

9. The proposed LGPSC 2023/24 strategic business plan is attached as an Appendix. The key focus areas are in line with the previous year and further narrative from LGPSC is provided below:-



Effective management of assets

10. Actions which aim to improve performance across all LGPSC funds; management information framework which demonstrates how LGPSC adds value from its oversight of external managers; working with Partner Funds on Private Markets asset allocation decisions, commitment timings and fund mandates; discussions with Partner Funds to explore whether and how LGPSC may be able to return capital, after cumulative breakeven is achieved during 2023/24.

Transitioning new assets into the pool

11. Ensure all new products included in 2022/23 business plan are launched during 2023/24 (subject to continuing Partner Fund needs); launch of additional Private Markets funds to meet Partner Fund Strategic Asset Allocation (SAA) needs; increase portfolio management efficiency and risk reduction through use of derivatives in discretionary Gilts mandate; review and evolve current funds (primarily through 3/5 year review processes).

Responsible Investment & Engagement (RI&E)

12. Continuing integration and reporting of RI&E as an element of delivering investment performance; continuous improvement of the RI&E service for Partner Funds (streamlining Climate Risk Monitoring methodology to improve speed and efficiency of Climate Risk Reporting & Taskforce for Climate related Financial Disclosures (TCFD) report production, Partner Fund training sessions and white papers on key RI&E topics & ad hoc support); continue to support Partner Funds on developing their journey to a Net Zero future; roll out offerings based on capabilities of the Environmental Social Governance (ESG) Tool; expansion of RI&E reporting to reflect evolving industry best practice.

Strengthen (Grow) Partner Fund relationship

13. Building out a clear client service model based around professional financial services Business-2-Business expectations; exploring with Partner Funds whether the capabilities built at LGPSC can provide additional support to key Partner Fund stakeholders; collaboration with Partner Funds to identify any additional collective services/solutions that LGPSC could provide; re-energise discussions around Central Pool Shared Objectives based on longer term partner Fund/Board aspirations for LGPSC.

Operational resilience

14. Procurement and implementation of Private Markets/Admin Systems; review cost sharing model; review of management information, internal data and client report; implement realigned Legal, Compliance & Risk structure and resourcing.

Recruitment and retention

15. Development of a clear 'People Strategy' to reinforce recruitment, retention, development, succession and D&I plans (to include both financial and non-financial initiatives); sharing the development of potential options for medium term retention strategies, building on the remuneration review process agreed with Partner Funds, peer group comparisons, longer term retention planning to drive performance and reinforce stability; improved dialogue between LGPSC & Shareholders to address staff retention issues.

Worcestershire Pension Fund existing Shareholders view

16. Our Shareholder has been supportive of the LGPSC proposed budget detailed in paragraph 8 above as the primary focus of the Company should be to enhance and achieve the targeted investment returns. This means recruiting and retaining quality staff and having to compete with its 'peers' in terms of salary and employment conditions to do this.

Updated Estimated Cost savings model

17. The Cost Savings Model was provided to the Committee in January 2022 and this has been updated as at the end of September 2022 and used for the Pooling submission to Department for Levelling Up, Housing & Communities (DHULC). Each Cost Savings Model is based on Assets Under Management (AUM) at different dates (£33bn to £58bn).

18. Table 1 below, indicates that total forecast savings have increased to **£339m** between 2018-19 and 2033-34, albeit a sizeable proportion of these savings (**£66m** or **19%**) are now generated directly by the Partner Funds themselves through the development of collaborative procurement frameworks and fee negotiations with legacy managers.

Table 1: Forecast Cost Savings model updated September 2022

Partner Fund	CSM 2020 £ Million	CSM 2022 £ Million	Change £ Million	LGPSC	LGPSC	LGPSC
				Average Bps TER Gross Saving	Average Bps TER Net Saving	Gross Savings Usage
WPF	16,522	9,484	(7,038)	16.3	2.9	82.2%
Forecast Cumulative Savings	268,505	339,618	71,113	15.1	6.6	56.3%

19. As shown in table 1 above, LGPSC forecast net savings equate to **6.6bps**; The forecast net savings are extremely sensitive to changes in relative performance, with a relatively modest ± 25 bps change in performance either reducing or increasing net savings by around **£760m**.

20. At a recent meeting Shareholders approved the appointment of 2 replacement non-executive directors.

Staffing

21. 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.

Practitioner Advisory Forum (PAF) Working Groups

17. 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)

18. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint, 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

19. 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

20. 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 February 2023)
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>

21. 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.

22. 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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Supporting Information

LGPSC Budget and strategic business plan 2023/24 - Appendix

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 8 February 2023
- LGPS Central business case submission to government 15 July 2016.