

PENSION COMMITTEE

28 JUNE 2023

LGPS CENTRAL LIMITED (LGPSC) UPDATE

Recommendation

1. **The Chief Financial Officer recommends the Pension Committee note the LGPSC 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 ninety administering authorities. Worcestershire Pension Fund in collaboration with eight other local authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire, Nottinghamshire, and West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPSC that was authorised to operate as an alternative investment fund manager (AIFM) and became formally operational from the 1 April 2018.

3. Several LGPSC local authorities have transitioned some of their existing assets into funds managed by LGPSC. We terminated our existing emerging market mandates and invested funds into LGPSC's Emerging Market Fund in July 2019. We terminated our existing active corporate bond mandates and invested funds into LGPSC's Corporate Bond Fund in March 2020. We made a £200m investment in LGPSC's All World Passive Climate Factor Fund in November 2021 and made a £200m investment in LGPSC's Global Sustainable Equity Active Targeted Fund / Global Sustainable Equity Active Thematic 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 funds subject to due diligence.

5. The 3-year review being conducted by LGPSC of its Emerging Market Fund is still in progress. Due to the poor performance of this fund since inception (-0.6% which is 2.40% below its target as at the end of March 2023), LGSPC are in the process of replacing Columbia Threadneedle Investments with another manager. At a previous update meeting we have continually communicated our dissatisfaction with the multi-manager approach of this fund. We await further engagement with LGPSC on this matter.

LGPSC meetings

6. LGPSC held an EGM on 10 May. At that meeting, LGPSC announced to partner funds that Chief Executive Officer (CEO) Mike Weston had left the company with immediate effect. Due to legal constraints, a specific reason was not given. However, it was confirmed that there had been no financial impropriety.

7. At the same meeting, the non-executive directors urged partner funds to consider a 2-year extension for the existing chairperson.

8. The next LGPSC AGM is scheduled for 26 September 2023 and is likely to cover the CEO and Chair positions.

Responsible Investment & Environmental (R &E) framework

9. Following a March Board meeting, an update to LGPSC's RI&E Framework and Voting Principles was agreed. The LGPSC RI&E team reviews its Voting Principles annually, ahead of voting season. A summary of the changes is as follows:

- a) RI&E governance is added and is to be aligned with Task Force on Climate-related Financial Disclosures (TCFD) disclosure;
- b) The Investment Beliefs section is to be renamed to Responsible Investment Beliefs;
- c) A clause related to the annual review of LGPSC's Voting Principles by the Board has been added that formalises the escalation process;
- d) A section dealing with systematic risks has been added to re-enforce LGPSC's commitment to Environmental, Social and Governance (ESG) themes, notably by:
 - i. The addition of modern slavery, diversity, equity & inclusion to the Human Rights section.
 - ii. The addition of a subsection focussed on biodiversity and deforestation;
- e) Voting principles have been extended to advocate robust gender and ethnic diversity; and
- f) Climate-related disclosure expectations have been updated to add new principles for disclosure on gender pay, deforestation-related risks, human rights and modern slavery-related risks, as well as tax transparency.

Staffing

10. Notwithstanding the unexpected recruitment of a new CEO and the potential search for a new chairperson, LGPSC are seeking to add an additional headcount to the Client Services Team.

Practitioner Advisory Forum (PAF) working groups

11. PAF has a number of work groups which have met regularly and aim to work closely with LGPSC to ensure that all the partner funds' requirements are met. These are:

- Governance Working Group (meeting monthly and chaired by Worcestershire).
- Investment Working Group (IWG) (meeting monthly).
- Responsible Investment Working Group (Now part of IWG and discussed quarterly).
- Finance Working Group (meeting as and when required).

12. 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. Two separate audits are taking place, one focusing on investments (led by Leicestershire) and the other, recently concluded, on governance (led by Worcestershire).

13. Recent PAF focus has involved a strategic review of the future of pooling. A session was held in Birmingham on 3 May which was aimed at identifying the strengths, weaknesses, opportunities, and threats to the pool. The discussion was a positive one

with partner funds and LGPSC representatives sharing compatible views. A follow-up session is planned for 20 June.

Investment Working Group

14. 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; and
3. Month 3 (Mar, Jun, Sep, Dec) – strategy and new products.

15. Recent product development has focussed on multi-asset credit, UK residential property and overseas indirect property.

16. Partner funds are reviewing their pooled asset allocations. Staffordshire are collating evidence on the 15 March Budget announcements and will circulate so that each can populate a template which can be considered against the potential requirements.

Contact Points

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Background Papers

In the opinion of the proper officer (Chief Financial Officer) there are no background papers relating to the subject matter of this report.