

Pensions Committee

21 March 2018

Report title	LGPS Central Update	
Originating service	Pension Services	
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Recommendation for noting:

The Committee is asked to note:

1. The progress to date with the implementation of LGPS Central.

1.0 Purpose and background

- 1.1 West Midlands Pension Fund has been working with seven partner Funds on a proposal which will meet the criteria for pooling laid down by the Secretary of State, by establishing a jointly owned investment management company, known as 'LGPS Central Ltd' (LGPS Central). This report outlines the progress made with the implementation and set up of LGPS Central in line with the Government's overall timescale of 1 April 2018.
- 1.2 Successful FCA authorisation of the operator (18 January 2018) presents a key milestone and in line with target timelines for authorisation. Further, authorisation for the Authorised Contractual Scheme (ACS) was approved on the 13 February 2018, along authorisation for the first 3 sub-funds, all of which are in passive equities. These represent key achievements for both the company and partner Funds in progressing delivery of the full operating model to secure longer term savings and meeting partner Fund's strategic objectives.

2.0 Recruitment and HR

- 2.1 Recruitment for senior roles has continued since the last report with six of the seven investment director roles having now been appointed, with interviews to take place shortly for the remaining post of Investment Director, Active Equities. In addition, Duncan Sandford has been appointed as interim deputy Chief Investment Officer. Successful appointments have been made from both partner Funds and externally. These are key roles to ensuring the success of Central to deliver the investment strategies of partner Funds. The following Investment Directors have been appointed:

Passive Equities: David Evans (WMPF)
Fixed Income: Gordon Ross (External)
Infrastructure & Property: Mike Hardwick (WMPF)
Private Equity: Omar Ghafur (External)
Manager of Managers & Absolute Return: Colin Pratt (Leicestershire)
Responsible Investment & Engagement: Michael Marshall (WMPF)

- 2.2 Other key roles which are currently being recruited to include Head of Human Resources and Business Services, Head of Client Services and Stakeholder Relations and Head of Operations. A number of other roles have been advertised including roles in risk and compliance to support Chief Compliance and Risk Officer along with finance roles to support Head of Finance.
- 2.3 Application for LGPS Central to become an employer with the West Midlands Pension Fund is in progress. A Supplementary Agreement has been developed to document entry to the Fund, the guarantee provided by Partner Funds to support LGPS Central pension liabilities and to confirm the basis for pension cost sharing.

3.0 FCA approval

- 3.1 As noted in section 1.2 approval has now been received from the FCA for both the operator, LGPS Central and the ACS and the first 3 sub-funds following months of intensive work by the Programme Team first in the submission of the applications, but also in responding to

the queries raised by the FCA. LGPS Central is the third of the National LGPS Pools to receive authorisation.

- 3.2 The first 3 sub-funds receiving FCA approval were: UK Equity Passive Fund; Global Ex UK Passive Equity Fund; Global Equity Dividend Growth Factor Fund. These sub-funds are programmed to be open and operational on 3 April 2018, with assets scheduled to transition from WMPF to LGPS Central at that time.
- 3.3 Work to complete set-up of the operator continues, focussed on the implementation of the company's key systems, which include Bloomberg, Northern Trust and SAGE. Partner funds have been provided with a training session from Northern Trust to complete necessary tax paperwork with forms due to be completed and submitted by end February. This will help ensure that the tax efficiencies within the ACS can be captured by partner Funds and is an essential part of the set-up process to facilitate Funds investing via LGPS Central sub-funds.

4.0 Investment Sub-Fund Development

- 4.1 With the progress being made on the opening of the first three internal passive sub-funds, focus is also increasingly shifting on future development.
- 4.2 LGPS Central have launched the pre-qualification questionnaire (PQQ) process as part of the tender for the Global Active Equity Mandate with advertisements in MandateWire (FT) and OJEU. This process is expected to take a couple of months and will lead to the selection of managers to sit under the Active Global Equity Sub-Fund. Funds have provided indications of the assets under management with existing external managers that they will consider transitioning to the new sub-fund when available. The exact timing of the sub-fund opening is yet to be agreed, but is expected to be in the autumn, once the selection process is complete and the ACS fund receiving approval from the FCA.
- 4.3 Work on other sub-funds with expected delivery dates in 2018 is also underway with internal global equities and emerging market equities also expected to be available later this year.
- 4.4 Partner Funds have established an investment working group which will sit under the Practitioner's Advisory Forum and is expected to be a key link between partner funds and LGPS Central in ensuring that partner fund strategic asset allocation requirements are met. All partner funds are expected to have representation on the investment working group with the first meeting due to take place in April. The role of this group is to consider future requirements from LGPS Central and to help shape the development of sub-funds. This group will also undertake oversight of LGPS Central from an investment performance perspective and Investment Directors and investment staff from LGPS Central are expected to attend these meetings.

5.0 Governance

- 5.1 With LGPS Central taking the programme delivery work, Partner Funds focus more on requirements for Shareholder Forum (as the group of "owner" representatives) and the Joint

Committee (focused on investment matters and client-side). The Practitioners Advisory Forum, PAF (officer group) will support both groups and liaison with LGPS Central.

- 5.2 The first meeting of the Shareholders Forum took place on 20th February and agreed the terms of reference for the Forum. LGPS Central business plan and budget were also reviewed and approved for 2018/19. The first meeting of the Joint Committee with a focus on the client side is due to take place on the 23rd March 2018.
- 5.3 The Practitioners Advisory Forum (PAF) continues to meet monthly and is in the process of establishing a number of working groups to support ongoing work both at LGPS Central and partner funds. The working groups will include separate groups to look at investments; responsible investment; client reporting and finance. Partner Funds are working closely with LGPS Central to support the development of key documents, including Client Service Agreements, and to review product development plans.
- 5.4 LGPS Central's own governance arrangements include an Investment Committee, Executive Committee and oversight from the Non-Executives through the company board and sub committees (Remuneration and Audit and Compliance). The Company Board is currently meeting monthly.

6.0 Financial implications

6.1 Set up costs

The estimated cost of setting up the jointly owned company is circa £4 million; this is being shared equally between the Partner Funds, with West Midlands' share being around £500,000. There will also be significant transition costs as existing investment mandates are unwound and funds are transferred into new collective investment vehicles. It is not possible to accurately predict these costs, but the initial business case includes an estimate of approximately £50 million for the pool. Transition costs will also be shared between the funds on a fair and equitable basis and will be incurred when assets are transitioned from 2018/19 onwards.

- 6.2 The following table shows total spend to date, and forecast to 31st March 2018.

	Actual to 31st January 2018 £000	Forecast to 31st March 2018 £000
Staff Costs	928	1,421
Professional Advisors	880	1,149
Other (inc. Premises, Technology, FCA fees)	650	1,315
Total	2,458	3,885
West Midlands' Share (one eighth)	307	486

- 6.3 LGPS Central presented and received approval for its 2018/19 budget and Strategic Business Plan 2018/19 to shareholders on 20 February 2018.

- 6.4 The provisional operating budget for 2018/19 is £9.1 million based upon a progressive build of employees and capability over the year. The operating budget forecast for 2019/20 and 2020/21 is £10.6m (with the increase in budget reflecting the full year cost of staff being recruited through 2018/19) and £11.0m, respectively. The budget reflects 63 FTE (full time equivalent staff) in accordance with the phased recruitment, and the planned phasing of the transition of assets into the ACS and other Collective Investment Vehicle (CIV) structures.

7.0 Communications

- 7.1 Briefing notes are produced and circulated to Committee on a regular basis in order to keep members informed of the progress in setting up LGPS Central. A new website for LGPS Central is being developed and will be a key source of information for both Partner Funds and externally.
- 7.3 The appointment of the Head of Client Services and Stakeholder Relations will be to the development of future communications and liaison with partner funds. The client reporting working group of PAF are working closely with LGPS Central to develop a reporting framework and to ensure that the standard of reporting which Funds currently receive from both internal and external services is maintained and enhanced.

8.0 Legal implications

- 8.1 The requirement to pool fund investments is a requirement of law, failure to work collaboratively and meet the Government's criteria and timetable for delivery may result in Government intervention.
- 8.2 The key risks are: -
- failure to achieve the statutory implementation deadline of 1st April 2018
 - failure to manage costs and savings in line with the agreed business case
 - failure to meet the requirements of the FCA regulator
 - failure to recruit appropriately skilled and experienced senior personnel to the new company
- 8.3 Comprehensive programme governance arrangements are in place to ensure that the statutory deadline for the implementation of pooling is achieved and that costs and savings are managed in accordance with the agreed business case. The S151 officers of each of the Partner Funds (or their nominated representative) sit on the Practitioners Advisory Forum, the Director of Pensions and Assistant Director, Investments and Finance are the WMPF/WMITA representatives on PAF. Regular meetings are held between the Chairs and/or Vice-Chairs/ Nominated representative of the respective Pension Fund Committees which forms the Shareholders Forum and the Joint Committee.

9.0 Equalities implications

- 9.1 There are no direct implications

10.0 Environmental implications

10.1 There are no direct implications

11.0 Human resources implications

11.1 It is expected that employees who are currently employed by the partner Funds to manage their investments or perform other related activities will transfer under the Transfer of Undertakings (Protection of Employment) regulations (TUPE) to the new company, subject to detailed consideration of current and future roles. This is now in progress with staff from both West Midlands Pension Fund and Derbyshire Pension Fund scheduled to transfer in early April. Employee briefings together with 1-2-1 consultation meetings have been undertaken in preparation for the transfer.

12.0 Corporate landlord implications

12.1 It has been agreed that LGPS Central Ltd will be based at 2 locations. The headquarters will be based in Wolverhampton with a satellite office in Matlock, Derbyshire.

12.2 The office in Wolverhampton will be based in Mander House, and the office in Matlock will be based in Derbyshire County Council Offices.

13.0 Schedule of background papers

13.1 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

<http://www.legislation.gov.uk/uksi/2016/946/contents/made>

13.2 Public Contracts Regulations 2015

<http://www.legislation.gov.uk/uksi/2015/102/contents/made>