

CITY OF
WOLVERHAMPTON
COUNCIL

Pensions Board

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Report title	LGPS Central Investment Pool Update	
Originating service	Pension Services	
Accountable employee(s)	Jill Davys Tel Email	Assistant Director, Investments & Finance 01902 550555 Jill.davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Board is recommended to note:

1. The update on the LGPS Central investment pool.

1.0 Purpose and background

- 1.1 This report provides an update on the ongoing development of LGPS Central Ltd, a jointly owned investment management company established by West Midlands Pension Fund and seven Partner Funds to deliver investment pooling in accordance with the criteria laid down by the Secretary of State.
- 1.2 LGPS Central Ltd (“the Company”) obtained FCA authorisation of the operator and Authorised Contractual Scheme (ACS) in January and February 2018 respectively. These represented key achievements for both the Company and Partner Funds in progressing delivery of a full operating model ahead of the April 2018 deadline and establishing a platform to assist in securing longer term investment cost savings and meet Partner Funds’ strategic investment objectives.
- 1.3 Since the Company formally launched in April 2018, investments products and services to be provided to Partner Funds have been developing, supported and overseen by the governance structures established within the Company and across the wider investment pool. The Shareholder Forum and Joint Committee each met twice during 2018, with the supporting Officer group (the Practitioner Advisory Forum) meeting at least monthly. Representatives from the West Midlands Pension Fund have been appointed to each group, with the Chair of Pensions Committee nominated as Chair for the Joint Committee.

2.0 Investment Sub-Fund Development and Asset Transition

- 2.1 The first three sub-funds were successfully launched on 3 April 2018 for internal passive equity sub-funds covering UK, Global ex UK and Dividend Growth, with West Midlands Pension Fund assets of around £5.2bn being transitioned into the new sub-funds on launch via a mix of in-specie stock transfers and cash assets.
- 2.2 Following the launch of the three-internal passive sub-funds, the focus for the pool has been on the product development pipeline to deliver new sub-funds to meet Partner Fund strategic investment requirements. Over the next 2-3 years, a range of internally and externally managed sub-funds are expected to be developed and launched for liquid (e.g. equities and bonds) and alternative more-illiquid asset classes (e.g. private equity, property, infrastructure).
- 2.3 The key focus from an investment perspective since the last Pensions Board has remained the active external global equity sub-fund, launched at the end of November 2018, with assets scheduled to transition in February 2019. WMPF along with four other Partner Funds are currently working closely with the Company on the transition arrangements with a dedicated transition adviser and transition manager having been appointed to manage the movement of assets. The role of the transition adviser is to assist the company and Partner Funds in the decision-making process as to whether the transition takes place inside/outside of the authorised contractual scheme, provision of indicative transition costs for each Partner Fund and assistance with the appointment and management of the transition manager. The transition manager following a call off from the National LGPS Frameworks has been appointed to assist with the transition. Having the transition manager and adviser in place will help to ensure the smooth transition of both WMPF assets and Partner Funds alongside a clear audit trail and cost analysis.

- 2.4 Other sub-funds currently in development and due for launch over the next few weeks include the emerging market external active sub-fund, corporate bond sub-fund and private equity sub-fund. The emerging manager sub-fund procurement process is now down to the final short-listing stage with appointments expected to be announced shortly following completion of due diligence by the Company. The corporate bond sub-fund is currently in the final stages of procurement with providers expected to be appointed shortly. Both the emerging market and corporate bond sub-funds will be launched as ACS (authorised contractual scheme) sub-funds in line with the preferred sub-fund structure for liquid assets, formal launch of these products is expected to be April 2019. The private equity sub-fund as an illiquid asset class, however has received formal approval from Partner Funds to be launched as a Scottish Limited Partnership in line with similar vehicles and other LGPS Pool approaches to managing illiquid assets. The first private equity sub-fund is expected to launch in early January 2019. WMPF is expected to participate in all of the above sub-funds resulting in a significant transfer of assets to pooled vehicles managed by the Company, as required under statutory guidance for LGPS investment pooling.
- 2.5 West Midlands Pension Fund officers continue to work closely with Partner Funds and the Company in considering the future product development pipeline for sub-fund launches, recognising that changing strategic investment priorities, available resource with LGPS Central Ltd and the potential for cost savings will continue to have an impact on the timeline for sub-fund launches. It is recognised that the development pipeline needs to be flexible and may well differ from the original timetable set out in the business plan.

3.0 Governance

- 3.1 Governance arrangements for the LGPS Central pool include a 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) support both groups and acts as a liaison with the Company.
- 3.2 Following the AGM on 10 September 2018 at which LGPS Central’s first Annual Report and Accounts were considered and approved for publication, the next meeting of the Shareholder Forum and company shareholder meeting is due to take place on 12 February 2019. This meeting will consider the budget for the 2019/20 financial year along with the business plan.

The Joint Committee met again on 14 December 2018 (previous meetings 23 March 2018 and 29 June 2018) at which the Committee received updates on the national LGPS pooling progress, an update from the company on the product development pipeline, an update from the workstreams of the Practitioners Advisory Forum along with a presentation on the Company’s responsible investment and stewardship service, supported by the recently appointed provider, Hermes EOS. A link to the papers for the Joint Committee can be found here: <https://www.lgpscentral.co.uk/category/lgps-central-joint-committee-agenda-minutes/>

- 3.3 With the company now more focused on business as usual mode, the Practitioners Advisory Forum (PAF) continues to meet monthly, PAF working groups covering investment product development, responsible investment, finance, client reporting and governance are focusing on support to the ongoing work programme of the Central pool. Work has progressed on a LGPS Pool Risk Register, which is next due to be presented to the Joint

Committee In June 2019. In addition, the internal audit teams of Partner Funds have been collaborating to agree an approach to an assurance framework with the company.

3.4 LGPS Central Limited'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 continues to meet monthly.

4.0 Financial implications

4.1 As previously reported, the final cost of setting up the jointly owned company (over the period July 2016 to launch in April 2018) was just over £4 million; this has been shared equally between the Partner Funds, with West Midlands' share being slightly over £500,000.

4.2 The Company's operating budget for 2018/19 was £9.1 million and assumed a progressive build of employees and capability over the year. At this stage it is expected that the Company will come in under budget for the year due to some delays in recruitment, most notably of investment staff. The operating budget forecast for 2019/20 and 2020/21 is currently under review, with the PAF Finance Working Group liaising closely with the Company to assess forecasts.

4.3 The ongoing cost of running the FCA-regulated Company operator LGPS Central Ltd and the recharges arising fall under 3 key categories: governance; operator; investment management charges, with governance costs shared on a 1/8th basis and operator and investment management charges shared on an assets under management basis.

4.4 New CIPFA guidance on the Pension Fund Annual Reports will require all Pension Funds to fully disclose progress and costs in relation to both the ongoing management of the Pool and transition, thereby providing high levels of oversight on the implementation of investment pooling and the delivery against the business case. The new reporting format is required for the 2018/19 annual report and WMPF is currently working through the requirements for this and the additional reporting likely to be required going forward.

5.0 Recruitment and HR

5.1 Following the resignation of the CEO in September 2018, the Company has undertaken a search for a replacement. In the meantime, an interim CEO has been appointed, John Burns, the Chief Operating Officer, to lead the company pending the formal appointment of a permanent CEO.

5.2 Recruitment to post of Investment Director, Active Equities remains ongoing, although the appointment of senior portfolio managers alongside the CIO and the Investment Director, Manager of Managers will help to ensure that the new active global equity and emerging market equity sub-funds have sufficient resource in the interim.

5.3 Dedicated training on the LGPS regulatory and operational background has been provided to LGPS Central Ltd employees to help them gain a broader understanding of the wider LGPS and Local Authority environment and provide context. It is planned that all new staff are provided with an induction that includes this background.

6.0 Communications

- 6.1 The website for LGPS Central Ltd has been developed <http://www.lgpscentral.co.uk/> and is now operational. In addition, the Company is in the process of setting up a client portal and is working closely with the PAF client group to ensure that this can meet the needs of Partner Funds to access key documents and information.
- 6.2 The Company will be holding a stakeholder day in Wolverhampton on 27th February 2019, to update on progress and outlook. All Local Pension Board members have been invited to attend. Further product information days are being scheduled to provide Partner Funds with detailed information as and when sub-funds are scheduled for launch.
- 6.3 The Investment Team at LGPS Central Ltd are providing Funds with quarterly strategy updates along with broader market and training information. Quarterly stewardship reports covering engagement and voting are also being provided to Partner Funds as well as being accessible on the Company website: <https://www.lgpscentral.co.uk/wp-content/uploads/2018/11/LGPS-Central-Quarterly-Stewardship-Report-No-2.pdf>
- 6.4 Monthly and Quarterly reporting on the LGPSC Ltd sub-funds is being provided and the client working group is working closely with the Company to further develop these reports to ensure that they will meet the reporting requirements of Partner Funds as the range of products and assets under management grows.

7.0 Legal implications

- 7.1 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.
- 7.2 The key risks are: -
- 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
- 7.3 Comprehensive programme governance arrangements are in place to ensure that the statutory deadline for the implementation of pooling was 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 Shareholder Forum and the Joint Committee.

7.4 MHCLG has recently issued updated statutory guidance relating to investment pooling for informal consultation. At this stage officers are currently reviewing the consultation and will be providing a response to MHCLG in due course.

8.0 Equalities implications

8.1 There are no direct implications

9.0 Environmental implications

9.1 There are no direct implications

10.0 Human resources implications

10.1 Employees who were previously employed by the Partner Funds to manage their investments or perform other related activities transferred under the Transfer of Undertakings (Protection of Employment) regulations (TUPE) to the new company in April 2018. This followed detailed consideration of current and future roles, TUPE meetings with all relevant staff and formal notification of the transfers.

11.0 Corporate landlord implications

11.1 LGPS Central Ltd is based at 2 locations, Wolverhampton and Matlock, Derbyshire.

11.2 The office in Wolverhampton is based in Mander House, and the office in Matlock is based in Derbyshire County Council Offices.

12.0 Schedule of background papers

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

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

12.2 Public Contracts Regulations 2015

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