

Pensions Board

23 January 2018

Report title	Investment Pooling Update	
Originating service	Pension Services	
Accountable employee(s)	Jill Davys Tel Email	Assistant Director, Investments & Finance 01902 55055 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 asked to note:

1. The progress to date with the implementation of LGPS Central in response to Government legislation requiring LGPS Funds to pool investments.

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 in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (Regulation 7), 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 A number of workstreams have been established to facilitate implementation, covering governance, HR, IT, set up of the operator, asset servicer and collective investment vehicles. Collaboration between Partner Funds and the LGPS Central programme delivery team continue to drive these forward, targeting the proposed launch date of April 2018. Progress reports are shared and discussed with representatives of DCLG on a quarterly basis.
- 1.3 FCA authorisation of the operator (approved in January 2018) presents a key milestone for which LGPS Central needs to recruit to certain roles ("control functions") and demonstrate it has robust operations, particularly IT. As the subsequent application for sub-fund authorisation progresses, client servicing needs and requirements are also being addressed in more detail to ensure LGPS Central can deliver for Partner Funds.

2.0 Applications for FCA approval

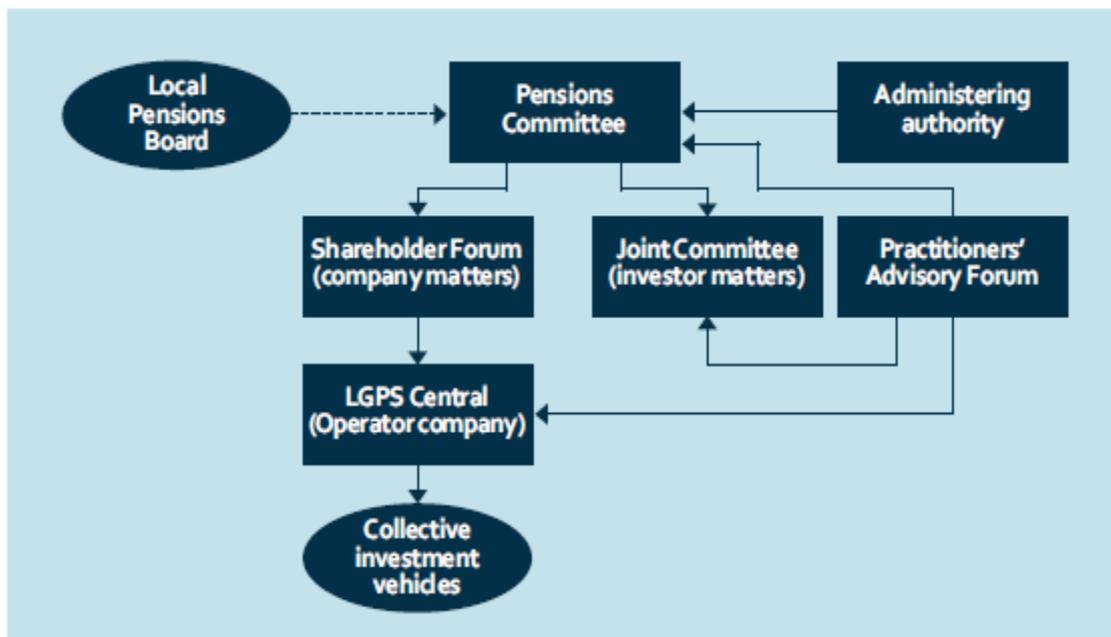
- 2.1 The programme team responded to FCA queries on the Operator application, (submitted July 2017) these included technical regulatory questions, updates on recruitment to the control functions and queries around the IT submission, in particular cyber security. The process was completed by the planned approval date of January 2018.
- 2.2 Alongside this, applications to the FCA for the approval of the Authorised Contractual Scheme (ACS) which was submitted to the FCA in December. The application includes the approval of the initial investment sub funds being transferred and launched by LGPS Central in April 2018.
- 2.3 Work to complete set-up of the operator continues at pace, focussed on the implementation of the company's key systems, which include Bloomberg, Northern Trust, SAGE (investment and finance systems) and the remaining procurement processes - the selection of internal auditor, legal services and tax advisor.
- 2.4 Penetration testing of the IT set-up (required by the FCA) was successfully completed in November. Work continues to complete the transition of services and development of the new office space, with refurbishment work advancing both in Mander House, Wolverhampton and with the Council offices in Matlock.

3.0 Governance

- 3.1 As LGPS Central representatives take on more of the programme delivery work, Partner Funds have started to focus more on the delivery 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.

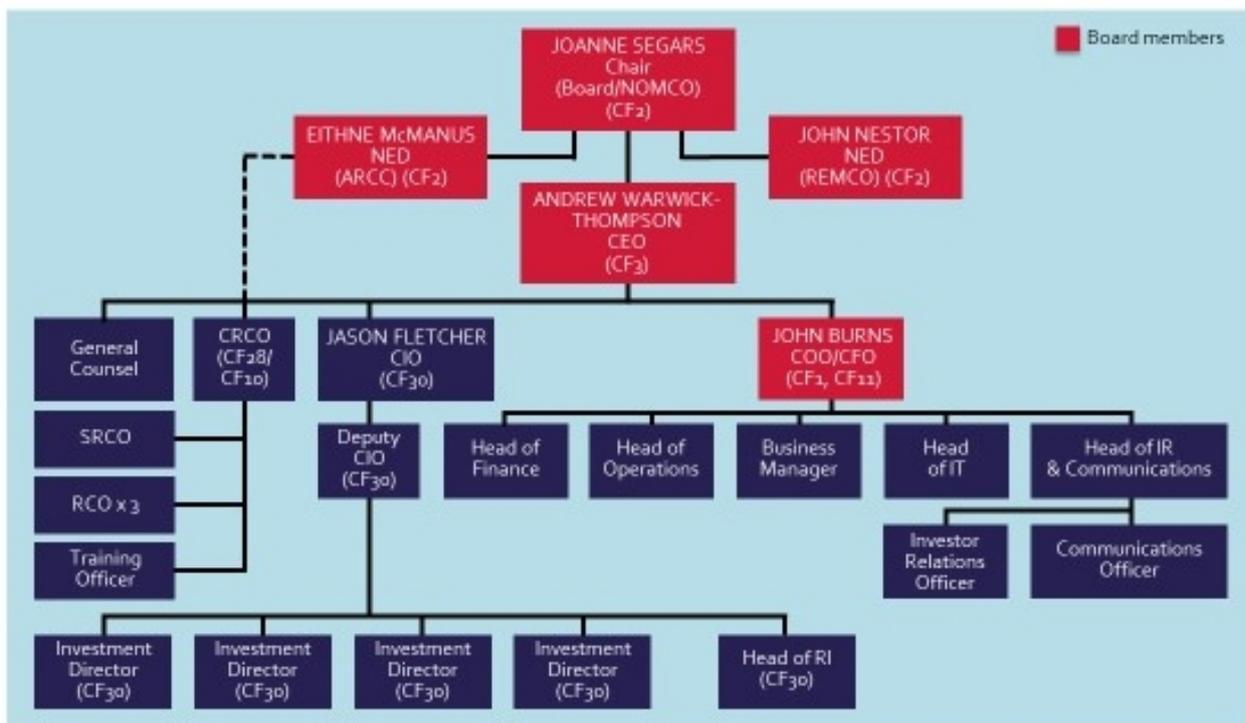
- 3.2 Roles and responsibilities are set out within the legal documentation at a high level and these, together with reporting requirements are being developed to ensure reporting and information flows are established. Meeting schedules and reporting lines will be confirmed as the new Fund governance arrangements are implemented early in the New Year. During the set-up period, the PAF is expected to meet monthly, the Director of Pensions and the Assistant Director, Investments & Finance will be permanent members of the PAF with other senior management participating in meetings as required, in particular the Head of Governance. The Chair of Pension Committee is the nominated representative for WMPF and WMITA on the Shareholders Forum and the Joint Committee. The Joint Committee is expected to form and establish arrangements in the first quarter of 2018.
- 3.3 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.
- 3.4 The chart below sets out the broader governance structure for pooling as it applies to West Midlands Pension Fund and LGPS Central, with the Pensions Board having a role in ensuring compliance with regulations for pooling and delivery against the Fund's Investment Strategy Statement and wider core objectives:



- 3.5 Work is currently underway to develop and agree both a client service agreement and a service level agreement (to include reporting requirements) to ensure that there is clarity and transparency over the services being delivered by LGPS Central to partner funds.

4.0 Recruitment and HR

4.1 Recruitment continues to be a major focus of activity for LGPS Central. Following appointments of the Board, Chief Executive, Chief Investment Officer and Chief Operating and Finance Officer, appointments have been confirmed for both the Chief Risk and Compliance Officer and General Counsel, completing the Company Board and Executive. John Burns, Chief Operating and Financial Officer joined in September and Jason Fletcher, Chief Investment Officer, transferred from the West Midlands Pension Fund in October and work has continued to develop both the investment and operational and finance support teams. A key role in terms of obtaining FCA approval was the appointment of the Chief Risk & Compliance Officer who has now taken up his post along with the Head of ICT. Appointments to the Investment Director roles are expected to be complete by the end of January. The Head of Finance has been recruited from the West Midlands Pension Fund and will transition ahead of the launch in April. The chart below sets out a high-level overview of the structure for LGPSC, but may be subject to change as the company refines its business plan:



4.2 Employee briefings were held in October, for those whose roles are expected to transfer to LGPS Central, with consultation meetings having been held in December and January. Prior to the briefing, proposals were shared and discussed with Union representatives.

4.3 Work continues to develop and implement a number of HR policies. Following approval of its pensions policy, the Company has selected a DC pension provider to deliver pension benefits for those higher graded/paid employees who are not eligible to join the LGPS. Application for LGPS Central to become an employer with the West Midlands Pension Fund has been completed. 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 cost sharing.

5.0 Stakeholder away day

5.1 A Stakeholder Day was held on 21 September 2017 at Molineux, Wolverhampton for all Pension Committee and Board members from each of the Partner Funds. In total there were approximately 90 attendees. At this event, attendees heard from the LGPS Central Board, on their proposals for the company, the Investment Offering, the perspectives from Advisor on pooling and from DCLG. Feedback from the event was very positive and funds welcomed the engagement from LGPS Central.

6.0 Financial implications

6.1 Set up costs

The estimated cost of setting up the jointly owned company is circa £4 million; this will be 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 December 2017 £000	Forecast to 31st March 2018 £000
Staff Costs	786	1,371
Professional Advisors	941	1,137
Other (inc. Premises, Technology, FCA fees)	451	1,558
Total	2178	4,066
West Midlands' Share (one eighth)	272	508

6.3 LGPS Central are in the process of preparing the operational budget for 2018/19. This will be presented for Shareholder approval in February 2018.

7.0 Communications

7.1 Briefing notes are produced and circulated to Committee and Board Members on a regular basis in order to keep members informed of the progress in setting up LGPS Central.

7.2 A website for LGPS Central is being developed and is expected to be launched in the New Year.

7.3 A stakeholder engagement event, attended by Committee and Local Pension Board members across Partner Funds, was held in September 2017 at the Molineux, and a further event is expected next year.

8.0 WMPF Transition to LGPS Central

8.1 The exact structure of all sub-funds which will be opened by LGPS Central is still under consideration, but working closely with Partner Funds, an outline of the key sub-funds has been agreed, with considerable detail agreed on the earlier sub-fund openings. The initial focus will be on liquid assets such as equities and bonds with more complex assets to follow at a later stage.

8.2 The current proposed schedule of sub-fund openings will see initial assets transition in April 2018 in the passive equity space. This will cover UK passive, Global passive and a Global Dividend growth fund. This will be followed by active global equities and emerging market equities. The sub-funds themselves will require FCA authorisation as part of the Authorised Contractual Scheme (ACS) vehicle; the authorisation process requires that the objectives, policy and strategy of the sub-fund be clearly set out. The objective refers to the investment objective (e.g. capital growth, income or a combination of the two); the investment policy covers how the sub-fund will go about achieving the objective(s) (e.g. whether it invests in equities, bonds, cash, etc, whether it can do stocklending and derivatives); and strategy which includes anything not already covered in objective or policy such as rebalancing.

8.3 As far as possible the proposed sub-funds agreed with Partner Funds closely replicate existing investment mandate profiles that Partner Funds already operate. In considering the transition of the WMPF's assets, officers have been working with the Fund's investment advisers (Hymans Robertson) to review the existing investments to assess how these might map across to the proposed sub-funds in Central Pool. It is recognised that not all of the detail around some of the later sub-funds has been finalised and that discussions remain ongoing with partner funds on the exact terms of some of these sub-funds to ensure that they meet the strategic requirements of WMPF and WMITA.

8.4 In advance of transition, the Fund will be seeking assurance over some key issues including the monitoring and oversight of the assets transitioned to the Pool. It will also need to ensure reporting arrangements, the appropriateness of the sub-funds in terms of how closely they meet the Fund's strategic investment goals as well as ensuring delivery of cost savings which includes monitoring closely the costs of transition of assets across to the Pool.

8.5 The Fund will commence transitioning assets across to LGPS Central in April 2018 at which point a service agreement will also be in place. It should be recognised that the sub-fund openings will take place over a period of 2-3 years and in some cases the Fund expects LGPS Central to facilitate discretionary management (delegated implementation of investment strategy with agreed parameters) for some of the assets where there won't be sub-funds available for some time. This is to reflect the fact that the bulk of the current investment team for WMPF will TUPE across to LGPS Central in April. The service agreement with LGPS Central is currently being developed to confirm and agree WMPF requirements.

8.6 The structure of sub-funds and benchmarks have been agreed by Partner Funds and appropriate reporting and oversight mechanisms of assets transferred will commence on transfer. The Practitioners Advisory Forum and WMPF officers supported by the Investment Advisory Panel will be working very closely with LGPS Central on future developments and investment offerings to ensure that LGPS Central (including KPI's for delivery) is able to meet the strategic requirements of WMPF.

9.0 Legal implications

9.1 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.

9.2 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

9.3 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) sat on the LGPS Central Programme Board and now sit on the Practitioners Advisory Forum, and regular meetings are held between the Chairs and/or Vice-Chairs/ Nominated representative of the respective Pension Fund Committees which forms the Shareholders Forum.

9.4 Expert advisers have been appointed to provide support to LGPS Central on legal matters, FCA registration, taxation and overall programme management, and professional recruitment consultants have been appointed to assist and advise on executive recruitment and remuneration.

9.5 The Joint Committee is expected to form and establish arrangements in the first quarter of 2018.

10.0 Equalities implications

10.1 There are no direct implications

11.0 Environmental implications

11.1 There are no direct implications

12.0 Human resources implications

12.1 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.

13.0 Corporate landlord implications

- 13.1 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.
- 13.2 The office in Wolverhampton will be based in Mander House, and the office in Matlock will be based in Derbyshire County Council Offices.

14.0 Schedule of background papers

- 14.1 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
<http://www.legislation.gov.uk/uksi/2016/946/contents/made>
- 14.2 Public Contracts Regulations 2015
<http://www.legislation.gov.uk/uksi/2015/102/contents/made>