

# Pensions Board

3 July 2018

<b>Report title</b>	LGPS Central Update	
<b>Originating service</b>	Pension Services	
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## Recommendations for action or decision:

The Board is asked to note:

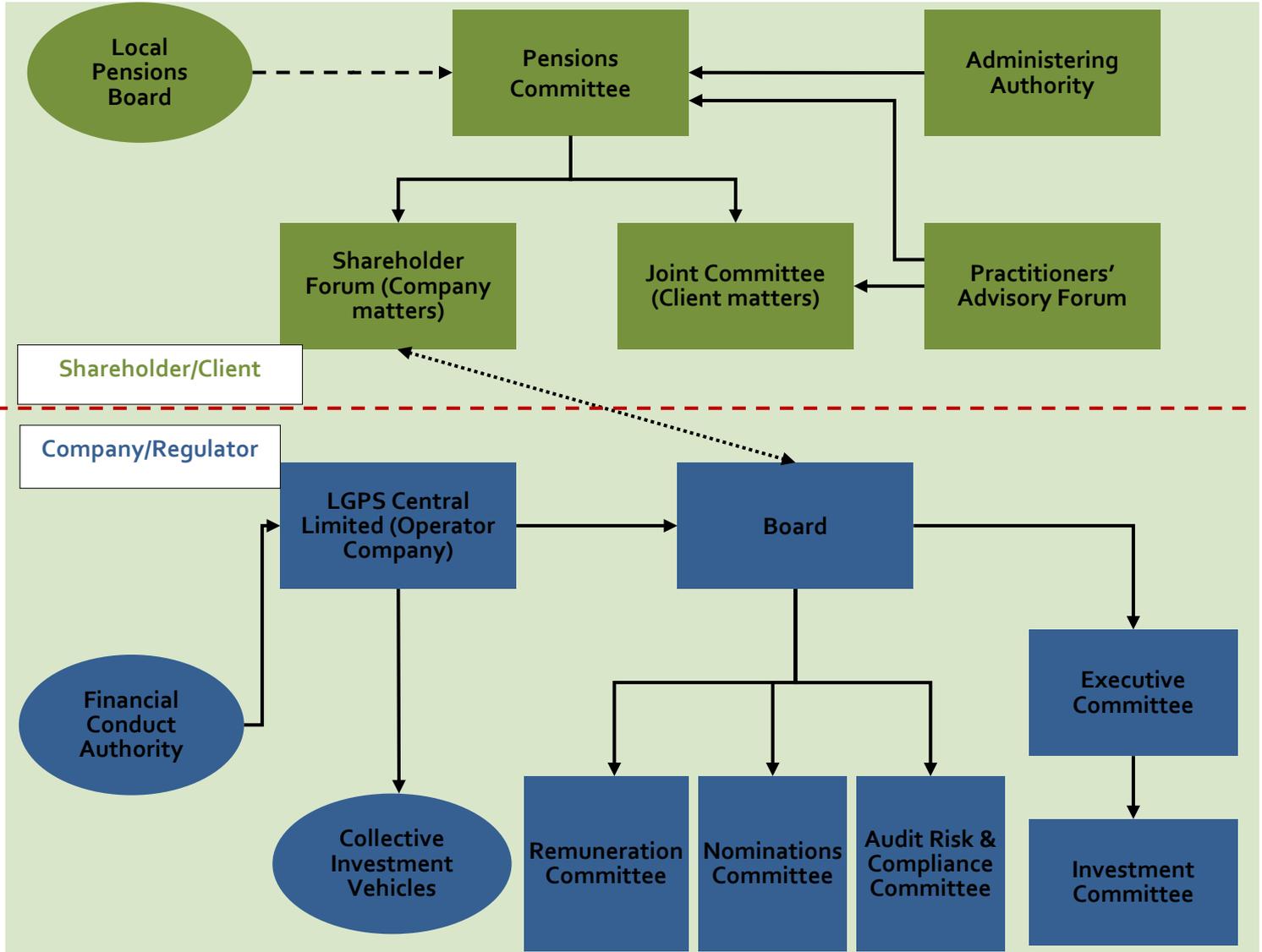
1. The update on LGPS Central progress.

## 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.

## 2.0 Governance

- 2.1 Governance arrangements for LGPS Central Limited 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.
- 2.2 LGPS Central Ltd.’s business plan and budget for 2018/19 were approved by Shareholders at their meeting on 20 February 2018. The next meeting of the Shareholders Forum is due to take place 10 September 2018. The first meeting of the Joint Committee took place on 23 March 2018 and included a presentation from Eversheds on the roles and responsibilities as shareholders and investors as well as a discussion on LGPS Central Responsible Investment Framework and Policy. The Committee has invited a Trade-union representative to join as a non-voting member. The next meeting of the Joint Committee is scheduled for 29 June 2018.
- 2.3 The Practitioners Advisory Forum (PAF) continues to meet monthly, with working groups also having been established covering investment product development, responsible investment, finance, client reporting and governance to support the ongoing work programme of the Central pool.
- 2.4 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 is currently meeting monthly.
- 2.5 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. The chart also provides further detail on the governance structure within the company itself:



- 2.6 As can be seen from the chart above the governance structure of the company itself, is similar to that of other investment management companies. It operates in a regulated structure as a fully authorised and regulated operator under the Financial Conduct Authority (FCA). The company operates with a Board comprising both executive and non-executive directors. Both the Chief Executive and Chief Operating Officer sit on the Company Board as well as the Executive Committee which includes the Chief Investment Officer, General Counsel and Chief Compliance and Risk Officer. The Company also has several operational committees including Investment and Audit, Risk and Compliance Committees.
- 2.7 Further oversight of the delivery of the business case comes from the reporting requirements, not only from partner funds, but also the regulator, normal audit (internal and external) and the requirement to publish regular statements to the Ministry for Housing, Communities and Local Government (MHCLG). The latest report had to be submitted in early April setting out progress on delivery of investment pooling by reference to the Guidance published by government. This requires investment pools to demonstrate the benefits of scale, the progress with governance structures and the effectiveness thereof,

cost savings delivered by pooling and the commitment to investing in infrastructure. LGPS Central submitted a joint response from Partner Funds and the company.

2.8 Partner Funds have also been working closely with LGPS Central Ltd to develop the reporting requirements to ensure they meet the standards required to enable Funds to assess both the investment performance, but also the cost savings being delivered by the Company as set out in the business case that was submitted to government.

### **3.0 Recruitment and HR**

3.1 Recruitment for senior roles has continued since the last report to Pensions Board with six of the seven investment director roles having now been appointed. Interviews are due 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)

3.2 Recruitment is underway for Senior Portfolio Managers to support Investment Directors as LGPS Central looks to build out further investment opportunities for Partner Funds as part of a programme of product development which will see the launch of investment sub funds over the next 2-3 years.

3.3 Recruitment to additional key roles have included appointments to the Head of Human Resources and Business Services, Head of Client Services and Stakeholder Relations and Head of Operations. The Head of Human Resources and Business Services will work with the senior management team to implement a programme of induction, training and support for all employees and will also develop a graduate training programme. A number of other roles have also been recruited including roles in risk and compliance to support Chief Compliance and Risk Officer along with finance roles to support Head of Finance.

3.4 Employees involved in day-to-day investment activity in West Midlands Pension Fund and Derbyshire Pension Fund (both managing investments internally), were subject to Transfer of Undertakings (Protection of Employment) regulations (TUPE) and moved to LGPS Central at the start of April. This followed a period of meetings and consultation with those affected and Trade Union representatives. The Company has provided through its payroll provider, a facility for employees to pay union membership fees by direct debit and is continuing to discuss union membership with Unison.

3.5 The Company participates in the LGPS via the West Midlands Pension Fund and employees transferring under TUPE have continuous service and membership in the Scheme.

## 4.0 Investment Sub-Fund Development

- 4.1 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. Officers at both the Fund and LGPS Central Ltd worked closely together to deliver the transition plan alongside the both the company's and the Fund's custodian. A full reconciliation of the transition has been undertaken and the Fund is now in receipt of weekly pricing updates for each of the 3 sub-funds as well as detailed monthly and quarterly reporting. The Fund's internal audit team are also now in the process of undertaking an audit to ensure that there is sufficient assurance on the transition and to highlight any issues.
- 4.2 Following the launch of the three-internal passive sub-funds, the focus for both LGPS Central and Partner Funds is on the product development pipeline to deliver new sub-funds to meet Partner Fund strategic requirements. Over the next 2-3 years, a range on internally and externally managed sub funds are expected to be developed for liquid (e.g. equities and bonds) and alternative more-illiquid asset classes (e.g. private equity, property, infrastructure).
- 4.3 The global active equity tender currently being conducted by the Company to support the launch of an externally managed equity sub fund saw a very positive response to its pre-qualification questionnaire (PQQ) with a wide range of managers submitting responses. Shortlisting from the PQQ stage has been completed and managers selected to take through to the next stage with full Request for Proposals (RfP) to be completed to refine the shortlist further. The Company remains on target to launch the external global equity ACS sub-fund (following FCA authorisation) in the autumn with a number of Partner Funds expected to transition assets as the sub-fund launches.
- 4.4 The Company, following consultation with Partner Funds on their requirements, has also now commenced a search for emerging market equity managers with a Pre-Qualification Questionnaire (PQQ) for a further sub-fund launch later in 2018. Work on other sub-funds with expected delivery dates in 2018 is also underway with an internal global equity sub fund and emerging market equity sub fund also expected to be available later this year.
- 4.5 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 priorities, available resource and the potential for cost savings will continue to have an impact on priorities 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.

## 5.0 Financial implications

### 5.1 Set up costs

The estimated cost of setting up the jointly owned company (over the period July 2016 to launch in April 2018) was circa £4 million; this has been shared equally between the Partner

Funds, with West Midlands' share being around £500,000. Not included with this are the 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 included an estimate of approximately £50 million for transition to pooled vehicles.

5.2 The following table shows provisional outturn to 31<sup>st</sup> March 2018:

	<b>Provisional Outturn to 31<sup>st</sup> March 2018 £000</b>
Staff Costs	1,334
Professional Advisors	1,366
Other (inc. Premises, Technology, FCA fees)	1,294
<b>Total</b>	<b>3,994</b>
<b>West Midlands' Share (one eighth)</b>	<b>499</b>

5.3 The Company's provisional operating budget for 2018/19 is £9.1 million and assumes a progressive build of employees and capability over the year. The operating budget forecast for 2019/20 and 2020/21 is £10.6m 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 structures.

## 6.0 Communications

6.1 A new website for LGPS Central is being developed and, together with updates from the Fund, will be a key source of information for Committee and Board members and all interested parties.

6.2 The Head of Client Services and Stakeholder Relations, Callum Campbell is working with colleagues and Partner Funds to develop a future communications and liaison strategy. Included within this will be a quarterly engagement report on responsible investment activity from the Director of Responsible Investment and Engagement, the first of which will be available for sharing with the Committee at its meeting in September. A client reporting framework for reporting on investment sub funds is being developed to ensure that the standard of reporting which Funds currently receive from both internal and external services is maintained and enhanced.

## 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 Shareholders Forum and the Joint Committee.

## 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. 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 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.

11.2 The office in Wolverhampton will be based in Mander House, and the office in Matlock will be 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/uksi/2016/946/contents/made>

12.2 Public Contracts Regulations 2015

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