

# Pensions Board

25 September 2018

<b>Report title</b>	LGPS Central Update	
<b>Originating service</b>	Pension Services	
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## Recommendation for noting:

The Board is recommended 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 Recruitment and HR**

- 2.1 Recruitment to additional key roles since the last update to Committee 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.
- 2.2 Two Senior Portfolio Managers have been appointed 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.
- 2.3 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.
- 2.4 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.

## **3.0 Investment Sub-Fund Development**

- 3.1 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.

- 3.2 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 of 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).
- 3.3 The key focus from an investment perspective since the last Pensions Board has been the development of the active external global equity sub-fund, which is now scheduled for launch at the end of November 2018. Partner Funds have been actively engaging with LGPS Central Ltd in the development of this and have been kept updated of progress. Work is now underway on transition arrangements to assist Partner Funds with the transition of existing assets across to the new sub-fund once launched.
- 3.4 The emerging market external active sub-fund is currently in development phase and a strong response from potential providers has been received and currently being reviewed. Partner Funds are working closely with the Company to develop the sub-fund structure and style to ensure that it meets the strategic requirements of the Funds themselves. In addition, LGPS Central Ltd is also looking to launch a Private Equity (vintage 2018) sub-fund in October under a Scottish Limited Partnership structure following approval of Shareholders at the recent AGM. A Corporate Bonds sub-fund is under development and due for launch in early 2019 following consultation with Partner Funds on strategic requirements.
- 3.5 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.

#### **4.0 Governance**

- 4.1 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.
- 4.2 LGPS Central Ltd.’s business plan and budget for 2018/19 were approved by Shareholders at their meeting on 20 February 2018. The AGM took place on 10 September 2018 at which LGPS Central’s first Annual Report and Accounts were considered and approved for publication. All directors (executive and non-executive) were reappointed for another year and the resolution to establish a Scottish Limited Partnership Company to deliver private equities was approved by shareholders. Reports from the Audit, Risk, Compliance and Remuneration Committees were also received.

- 4.3 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 second meeting of the Joint Committee took place on 29 June 2018 at which the Committee received updates from the company on the product development pipeline, regulatory compliance, responsible investment, a pool risk register and an update from the workstreams of the Practitioners Advisory Forum. In addition, a representative from the Local Government Association presented a comprehensive overview of developments not just from wider investment pooling but also the LGPS more broadly. A link to the papers for the Joint Committee can be found here: <http://www.cheshirepensionfund.org/governance-of-the-cheshire-pension-fund/lgps-central-committee/>
- 4.4 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.
- 4.5 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.

## 5.0 Financial implications

### 5.1 Set up costs

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. 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.

	<b>Final outturn LGPSC Ltd set-up costs to 31 March 2018 £000</b>
Staff Costs	1,354
Professional Advisors	1,366
Other (inc. Premises, Technology, FCA fees)	1,294
<b>Total</b>	<b>4,014</b>
<b>West Midlands' Share (one eighth)</b>	<b>501</b>

5.2 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 has been developed and, together with updates from the Fund, will be a key source of information for Committee and Board members and all interested parties. A link to the updated website can be found at: <http://www.lgpscentral.co.uk/>

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 shortly and will be posted on the website. 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>