



LGPS CENTRAL JOINT COMMITTEE

MINUTES OF THE MEETING HELD ON 29TH JUNE 2018

COUNTY HALL, MATLOCK, DERBYSHIRE

Attending: Councillors Hogg, Atkin, Perkins, Osborne, Kerry (Vice-Chair), Biggins, Greatorex, Atkins, Brookfield (Chair), Inston, Banks

Other Attendees:

Partner Fund representatives : Mark Wynn (MW), Chris Mann (CM), Charles Riley (Clerk), Peter Handford, Dawn Kinley (DK), Catherine Bedford, Chris Tambini, Nigel Stevenson, James Walton, Rachel Brothwood (RB), Jill Davys (JD).

LGPS Central Ltd (LGpsc): Joanne Segars (JS), Mike Vinton (MV), Callum Campbell, Michael Marshall (MM)

Local Government Association : Bob Holloway(BH)

Item 1 - Procedural Matters

Apologies - No apologies were received

Declarations of Interest – No declarations of interest were received

Minutes of the last meeting (23rd March 2018) – Matters arising

The Joint Committee was updated regarding the appointment of a trade union representative to the Committee. The regional branch secretaries of the North West and Midlands Trade Union Congress (TUC) had been asked to nominate a representative. A formal response is awaited. The Chair expressed his hope that the matter of trade union representation would be resolved as soon as possible, and asked the Committee to note that in the interim, the trade union representative from the West Midlands Pension Committee was in attendance at the meeting in an observer capacity.

Item 2 FCA Compliance (presentation by Mike Vinton LGpsc)

Mike Vinton, Chief Compliance and Risk Officer, LGpsc, gave a presentation to the Committee outlining the role of the Financial Conduct Authority (FCA), the key regulatory requirements impacting the company and how these are being addressed and current issues/developments which may have implications for the future.

Councillor Brookfield asked whether the FCA was carrying out ‘light touch’ inspections initially, given that pooling is a very recent development and what the timetable of inspection and review might be going forward. MV explained that the

FCA would adopt a risk based approach, and would undertake both thematic reviews, and full company inspections. JS added that she expected the FCA's approach to develop over time, and that the open and constructive dialogue the company had established with the regulator so far, had been key to helping them understand the pool structure, and how regulatory compliance would be delivered within it. She felt that cyber security would be a key area of interest for the FCA going forward.

Councillor Kerry asked what the FCA will interpret as "reasonable" in terms of the company's compliance. MV felt that this was another area where understanding would need to develop over time and in the light of experience. Generally, the regulator would wish to understand the process by which decisions and judgements are made, rather than just assessing the decision or judgements themselves.

Councillor Brookfield sought clarification of the Joint Committee's role in the regulatory framework. MV explained that in terms of its oversight role, the Committee would need an understanding and appreciation of the wider regulatory framework. This would help them to assess any issues reported in future in an appropriate context.

Councillor Atkins asked what the driver is behind the regulations, commenting that potential interested parties such as HM Treasury and Bank of England might be expected to have different objectives. MV clarified that the primary objective of the FCA is to protect consumers and the integrity of the UK financial system.

The presentation was noted and the Chair thanked MV for his input.

Item 3 MHCLG Spring Progress Report (briefing by Mark Wynn, Cheshire Pension Fund)

MW gave a brief summary of the report which had been jointly prepared by the Partner Funds and LGPS Central Ltd. The key points highlighted in terms of overall progress included:-

- The overall aim for assets totalling £32bn to be pooled by 2020/21, with limited exceptions for cash and annuity buy-ins.
- Assets of £5.5bn already transitioned into pooled funds.
- Clear governance structure in place.
- Target go-live date for LGPSC achieved, set up costs slightly higher than first calculated.
- Investment fee savings of £15m achieved between 2014/15 and 2016/17.
- On target to achieve £247m savings by end of 2034, with break-even forecast in 2024/25.
- Investment Director for Infrastructure and Property appointed, Partner Funds collaborating around short term infrastructure opportunities.

Feedback received so far from MHCLG has been very positive.

The Committee were advised that all pools are likely to receive a letter from the Minister before the Parliamentary recess, providing formal feedback on their progress, but no follow up meetings are expected.

JS added that there was clear agreement between the Partner Funds and the company on shared outcomes and that LGPS Central was in a strong position overall.

Councillor Brookfield asked if other pools had made submissions and how LGPS Central's progress compared. MW replied that we could only know for certain what is happening in the Central Pool but that LGPS Central appeared to be a leader along with Brunel and Borders and Coast who were in a similar position. Some other pools were still in the process of establishing investment platforms. The strong business case and strategy of LGPS Central was recognised by central government. MHCLG had confirmed that whilst pools were pursuing different delivery models, the rules for asset transfer will apply to all.

JS added that she felt the report reflected the strong position that had been collectively achieved by the Partner Funds and the company.

The Committee noted the report and the feedback received to date.

Item 4 LGPS Central Ltd update (Joanne Segars LGPSC)

The Committee received a slide presentation from JS summarising the company's progress over the last three months. LGPSC was the first of the newly formed pool operators to receive FCA authorisation, had successfully launched on 3rd April, and now had assets of £13.5bn under management (£5.5bn in the Authorised Contractual Scheme (ACS) and £6.5bn under segregated discretionary/advisory mandates).

Recruitment is on-going with 43 posts now filled, the target establishment being 65 posts. Appointments had been made from both the public and private sector, bringing a good mix of skills and experience to the team. At senior level, the Head of HR and Business Services is now appointed and the Investment Director Active Equities post is currently advertised. All of the Non-Executive Directors (NEDs) are now FCA authorised.

Callum Campbell, Head of Client Services and Stakeholder Relations was introduced to the Committee. Callum will represent the company at both formal governance and client meetings in future and is currently working on the development of the company website which will be going live very soon.

JS felt that a good corporate culture was developing and assured the Committee that all key deliverables for the current year were on track. The current focus is on engaging effectively with the Partner Funds to develop the investment offer, whilst delivering cost savings, strong performance and responsible investment. Compliance is a key priority and a further risk report will be produced in September.

Councillor Greatorex applauded the progress to date and unanimity of focus on budgets and delivery timescales. He asked if there was scope for bringing forward planned timescales and accelerating the realisation of benefits. JS replied that achieving the right balance was important, given the risks involved, but options were being actively explored by the Investment Working Group and the company.

Councillor Osborne noted the many positive developments since the last meeting but asked if there had been any disappointments or surprises and what the key learning points had been. JS responded, highlighting communications as an area where things had not gone as well as they could; understanding the individual requirements and aspirations of Partner Funds and completing legal agreements were also noted as key challenges.

Councillor Atkin asked if there was likely to be any growth in the company's staffing establishment in future. JS explained that the company was working to the agreed target structure of 65 posts. Any further appointments would need to be approved by the shareholders and linked to specific investor requirements.

Councillor Biggins asked about arrangements for developing the 2019/20 business plan and budget. JS confirmed that the company board will be considering this at a Board Strategy Day, with a view to sharing proposals in September. A programme of regular quarterly reporting on both company and investment performance is envisaged.

The Chairman thanked JS for her presentation.

Item 5 Product Development and Asset Transition Plan (Rachel Brothwood WMPF/Joanne Segars LGPSC)

RB & JS presented a joint report which outlined the work currently underway to progress the asset transition plan, which is dependent on the development of appropriate and cost effective collective investment products.

The Committee was reminded of the principles underpinning the initial transition plan set out in the LGPS Central business case, and that successful delivery depends on a number of key factors including the company's ability to recruit suitably experienced staff, the development and licensing of appropriate pooling vehicles and the commitment of Partner Funds to investing assets in the products on offer.

Timescales also need to recognise that priority has initially needed to be given to developing fund management options for those Partner Funds whose in-house investment teams transferred to the company at launch. These are now being managed in three new ACS sub-funds and under a range of discretionary and advisory segregated mandates. Two further ACS sub-funds are currently under active development (Global Equity Active External and Emerging Markets Equity

Active External), and a further five sub-funds are planned for launch later in 2018/19, including Corporate Bonds Active External and UK Equity Active Internal.

Partner Funds are being consulted individually and collectively, through the Investment Working Sub-Group of the Practitioners' Advisory Forum (PAF), on their investment requirements to ensure that offers are aligned with long term strategic investment objectives, offer value for money and clear savings opportunities.

LGPS Central intends to present individual business cases to PAF for approval, which will include for each product/service:

- Evidence of Partner Fund demand
- A delivery plan, including consideration of partnership/collaborative working
- A clear explanation of development and on-going costs to enable Partner Funds to make value for money assessments and make comparisons with other similar products in the market
- An assessment of the transition implications and costs
- An assessment of the expected impact on both the overall level of cost savings and the level of individual Pension Fund cost savings

A new Product Development and Asset Transition Plan will be developed jointly by the Partner Funds and LGPS Central as individual business cases are developed and approved. The pool's Responsible Investment Policy will be taken into consideration in the development of all investment mandates and manager appointments.

Councillor Greatorex asked whether the Product Development Plan will get in the way of the transition plan and emphasised the need for the company to be able to implement the strategies determined by the Partner Funds. RB and JS responded, explaining that product development and transition required co-ordinated planning, as transition could not proceed until suitable products were available to accommodate transferred funds. Transition and product development are effectively two sides of the same coin.

Councillor Hogg asked for clarification of the Joint Committee's role in the transition process. RB explained that individual Partner Funds would make decisions on product and sub-fund selection, but the Joint Committee had an important role in terms of oversight of the process, co-ordinating investment priorities across Partner Funds and aligning local decision making with the overall transition timetable.

Councillor Atkin asked how Partner Fund Pension Committees could engage with the product development cycle. JS explained that this would largely be by feeding in their views via PAF and the Investment Working Sub-Group

Councillor Brookfield asked about the role of the Joint Committee in providing collective oversight of the transition process and encouraging a collaborative approach. MW commented that historically transition reports would be to individual

local authority pension committees, and there would still be a need for each Partner Fund to monitor their own transition costs going forward. The Joint Committee's role would be to review the position across the pool as a whole.

Councillor Kerry observed that the role of the Joint Committee is to oversee the delivery of savings and the pace at which they are achieved, alongside wider value for money benefits.

Councillor Brookfield noted cost benefit analysis would be carried out for each prospective product and that best value could be achieved through either internal or external management, and that there was a place for consideration of both options. JS confirmed that all parties are mindful that internal management, along with more cost effective alternative investment vehicles are key drivers of the business case savings.

The Committee noted the report.

Item 6 Pool Risk Register Update (Jill Davys WMPF)

JD presented an initial Risk Register which had been compiled to capture key risks arising from pooling that could impact across all parties involved in the LGPS Central Pool. This included risks to the Partner Funds both in their shareholder and investment client capacity.

The purpose of the register is to document and evaluate individual risks, so that appropriate mitigation and control measures can be considered and overall risk exposure managed.

Risks identified by PAF have been grouped into five categories:-

- Governance
- Investment
- Company
- Finance and Operational
- Wider Pooling

and scored, according to their likelihood and potential impact.

The initial evaluation has highlighted seven high level risks, one relating to investment, three to the company, one to finance and operations and two to wider pooling. This is very much an initial view, which will need to be informed going forward, by work LGPSC are currently undertaking to develop their own risk register and in the light of on-going experience.

Feedback from the Committee was sought on the risks identified to date and also on any further issues they would wish to be considered as the Risk Register is developed.

Councillor Brookfield sought clarification on the ownership of the Risk Register. JD explained that the register would assist the Joint Committee in their oversight role, so reflected risks at a pool level. There would be some inevitable overlap with risks identified by LGPSC and by individual Partner Funds, but the aim was to provide a collective perspective and to facilitate a joint approach to managing risk.

JS confirmed that LGPSC have their own risk register that is reviewed at every Board meeting. She fully supported however, the development of a pool-wide risk register. The company will carry out an in-depth risk review in September and will be arranging a workshop after that to consider high level risks, including areas such as key persons, asset transition and reputational risk.

Councillor Atkin asked about the role of Internal Audit in the risk management process. JD responded explaining that a meeting was due to take place shortly involving internal audit representatives from each of the Partner Funds, LGPSC Chief Operating Officer and KPMG (the company's internal auditor) to agree a joint approach and a unified work plan.

Councillor Brookfield proposed as Chair, that he and the Vice-Chair should represent the Joint Committee at the risk workshop being planned for later this year, with other members being welcome to attend if they wished.

The report was received and Councillor Brookfield proposal agreed unanimously.

Item 7 National Overview (presented by Bob Holloway, LGA)

BH presented a detailed overview of the national positions on pooling and wider LGPS developments including: the desire by Government for increased infrastructure investment, recent changes to the Investment Regulations and the Secretary of State's new power of direction, the complex legal position regarding the extent to which non-financial factors can be taken into account in investment decision making, the current spotlight on data quality, the development of Local Pension Boards and progress in rolling out the Scheme Advisory Board's Cost Transparency Code.

Councillor Brookfield enquired about the role of Local Pension Boards in pooling. BH responded that their role is to support scheme managers in ensuring compliance and best practice and as such they had no direct role in the formal governance of pools although a number of Local Pension Board trade union representatives felt that they should have a scrutiny role in respect of pools.

The Committee received the national overview and update.

Item 8 Responsible Investment Framework update (Michael Marshall LGPSC)

MM presented a report which updated the Committee on implementation of LGPSC's Responsible Investment and Engagement Framework and relevant industry developments. Key points highlighted were:-

- Successful accreditation at Tier 1 (best practice) by the Financial Reporting Council for LGPSC's Statement of Compliance with the UK Stewardship Code.
- Launch of Department for Work and Pensions (DWP) consultation on clarification of fiduciary duty and the role of scheme members (not directly relevant to LGPS, but likely to have implications for other occupational pension schemes).
- Work with the partner organisation Principles for Responsible Investment (PRI) to develop a new framework to set and raise standards for managing and disclosing responsible investment issues in the private equity sector.
- Co-engagement with eight companies in the last quarter on a range of issues including remuneration, corporate disclosure, cyber security, board composition, succession planning and climate risk strategy.
- Establishment of the company's interim voting arrangements and development of the first Quarterly Stewardship Report which will be issued in August.

The report also outline activity undertaken to progress the three key stewardship themes agreed for the current year; climate change, cyber security and diversity.

Councillor Greator asked how the company's voting policy and those of the individual Partner Funds would be aligned going forward to avoid potential cross-voting. MM explained that the company's voting policy had been based substantially on the voting policies of the Partner Funds, which were already closely aligned. Going forward, the Responsible Investment Sub-Group of PAF would help to co-ordinate developments across Partner Funds, and the Joint Committee itself would have a key role in helping shape collective priorities.

Councillor Brookfield asked about the company's processes for managing any potential conflict in stock selection choices between the environmental, social and governance 'credentials' of investee companies and their investment performance potential. MM explained that the starting point is looking at RI and acknowledging there is a beneficial link between RI and returns. The company has been set up in a way that RI is not a separate decision making process, but is embedded within core investment decision making. JS added that the Board has spent a great deal of time considering this issue and that RI is an integral part of the company's investment philosophy. Clear processes are in place to ensure appropriate Board oversight .

Councillor Kerry asked how duplication of RI management overheads would be avoided where external managers are appointed. MM responded that every fund manager would have an internal team and that opportunities would be explored

during the manager selection process to assess how value could be added through collaboration and leveraging of their expertise.

The Members noted the report.

Item 9 PAF update (Dawn Kinley Derbyshire Pension Fund)

DK outlined the work undertaken during the last quarter by PAF. Specific sub-groups have been established to focus on:-

- Client reporting
- Finance
- Governance
- Investment
- Responsible Investment

The Members noted the report.

The Chair thanked everyone for their contribution and Derbyshire for its hospitality and the meeting was closed.

The next meeting of the Joint Committee will take place at Shire Hall, Shrewsbury on Friday 14th December 2018.

Signed by :

Councillor Ian Brookfield, Chairman