

LGPS Central Joint Committee Meeting

21st June 2019

Practitioners' Advisory Forum Report

1. Purpose of the report

To update the Joint Committee on the work of the Practitioners' Advisory Forum (PAF) and its constituent working groups.

2. Background

PAF is a working group of Section 151 and Pensions Officers appointed by the Partner Funds within the LGPS Central Pool (the Pool) to support the delivery of the objectives of the Pool and to provide support for the Pool's Joint Committee and Shareholders' Forum. It is intended that, where possible, PAF should speak as "one voice" to reduce the duplication of costs and resources and maximise the benefits of scale.

PAF is supported by four individual working groups:

- Client Oversight & Governance Group
- Finance Working Group
- Investment Working Group
- Responsible Investment Working Group.

The working groups share the pool related workload of the Partner Funds and assist with the delivery of PAF priorities. The working groups report to PAF and support Partner Fund decision making.

3. PAF Update

Since the last meeting of the Joint Committee in December, PAF and individual working group meetings have focused on the following:

- Product Development & Future Sub-Fund Launches
- The LGPS Central Limited (LGPSC) Business Plan, Annual Budget & KPIs
- Transition to the Global Equity Multi-Manager Sub-Fund
- LGPS Central Pool Risk Register & Audit Assurance Framework
- Development of the Pool's Stewardship Themes
- Preparation for the Shareholders' Forum and for the Joint Committee

Current priorities for PAF and its working groups include:

- To complete the Global Emerging Markets Equity Multi-Manager and Global Corporate Bond Sub-Fund transitions
- Implement the agreed Product Development Protocol

- Cost Sharing Review & Update of the Cost Savings Model following the completion of a cost transparency review
- Ensure that LGPSC reporting meets the needs and requirements of its invested funds and to ensure that there is clarity over the governance arrangements for the Pool
- Delivery of a Responsible Investment event for Members and the Local Pension Boards across the eight Partner Funds

The reports of the individual working groups are attached as Appendix 1.

4. Recommendation

It is recommended that the Practitioners' Advisory Forum Report be noted.

Appendix 1

Client Oversight & Governance Group (COGG)

The Client Oversight and Governance Group (COGG) was formed out of combining the Governance and Client Reporting groups of the Practitioners Advisory Forum and commenced work in January 2019. LGPSC Ltd have been in attendance at all meetings. The focus of the group has been to cover key areas of governance and oversight and to develop reporting not only on LGPSC Ltd sub-funds but also to focus on other key performance areas. The remit of the group is set out below:

- Support the wider PAF in undertaking oversight of the governance arrangements and client reporting functions of the LGPS Central Investment Pool
- Assist LGPSC Ltd in developing its understanding of local government operations and governing bodies through the assistance on, and review of, draft documents in advance of their presentation to PAF and to Partner Funds' governing bodies for approval
- Develop, monitor and implement, in conjunction with the other PAF Working Groups, the necessary arrangements for the effective monitoring and oversight of LGPSC by PAF
- Ensure the necessary arrangements and effectiveness thereof are in place to review and monitor the LGPS Central Pool's adherence to the government's pooling criteria and statutory guidance
- Work on the development and implementation of and monitoring the effectiveness of client reporting protocols between LGPSC and the Partner Funds ensuring LGPSC's investment reporting meets client requirements
- Review and consider any actions resulting from LGPSC's client reporting
- Review the LGPS Central Pool governing documents
- Develop, test and assess effectiveness of compliance monitoring and internal controls framework, including development and ongoing assessment of the risk register for the wider LGPS Central pool
- Oversee the audit assurance framework

Since the group was formed in January it has met 5 times with good attendance and engagement from both Partner Funds and LGPSC Ltd. Task and Finish groups have been set up with smaller focused groups to progress key pieces of work and feedback to the main COGG meetings, this has included the following:

- Product Development Protocol – now agreed and in the process of being implemented. This key piece of work has set out how new products for LGPS Central will be developed and delivered going forwards and will enable Partner Funds and their advisers a greater number of touch points to check products being developed meet their strategic requirements. This will also enable the company to gain greater certainty over the level of Partner Fund commitments. The protocol is in process of being fully

implemented for all new products going forwards, as well as picking up those products in various stages of development

- **LGPS Central Pool Risk Register** – This has been developed to recognise, assess and monitor key risks for the Pool as a whole and reflects shared risks (i.e. not specifically company or partner fund risks), but risks that the Joint Committee should be aware of that could lead to delays or disruption to the development and delivery of investment pooling. It is recognised that there are a relatively high number of highly rated risks at this time, but it should be recognised that investment pooling is still in relatively early stages of implementation for what is a major change project and it is anticipated that over time that some of these risks will see ratings downgraded. The register will be reviewed regularly by COGG and will be presented to the Joint Committee meetings as part of regular reporting going forwards
- **Governance working group** – This group has been formed to review the legal agreements in place and where appropriate to update for changes to legislation, e.g. GDPR (general data protection regulations). The group is also reviewing the existing agreements to update to reflect the fact that LGPSC Ltd is now operational, some of the wording in the existing agreements reflects pooling in development and now needs to refer to the company and its operations. External legal advisers have been appointed to assist with this process. Further updates will be brought to the Joint Committee on progress
- **Investment Reporting group** – Whilst sub-fund reporting has been in place since the first 3 sub-funds were created in April 2018 and related to passive equity funds, the demands of sub-fund reporting for active managed sub-funds requires a greater level of information and this group is working closely with the company to further develop investment reporting

In addition, COGG is working with LGPSC Ltd on events planning and feedback, communications and audit assurance work in conjunction with the internal audit working group. Members of the internal audit working group have also attended some of the COGG meetings to help with understanding of the oversight and monitoring of Central.

Finance Working Group (FWG)

The Finance Working Group has been established to:

- Review LGPSC's Annual Budget, represent Partner Funds in budget discussions with LGPSC, present budget reviews to PAF, co-ordinate Partner Fund responses to LGPSC and prepare budget briefing notes for the Shareholders' Forum
- Review LGPSC Quarterly Budget Monitoring Reports, represent Partner Funds in discussions on the quarterly reports and prepare relevant briefing notes for the Shareholders' Forum
- Monitor LGPSC cost sharing arrangements and determine whether Partner Funds need to trigger a cost sharing review
- Review LGPSC Final Accounts and prepare briefing notes for the Shareholders' Forum
- Develop a new LGPS Central Pool Cost Savings Model in collaboration with LGPSC
- Take a lead on final accounts and annual report disclosures for the Partner Funds

Since the last Joint Committee meeting in December, the FWG has:

- Reviewed LGPSC's Quarterly Financial Reports to Shareholders and carried out a review cost sharing arrangements for 2018/19
- Carried out due diligence on LGPSC's 2019/20 budget, reported back to PAF and co-ordinated PAF's response to LGPSC
- Prepared a briefing note for the Shareholders' Forum on LGPSC's 2019/20 Business Plan (including Annual Budget) and Regulatory Capital Statement
- In collaboration with LGPSC commenced a review of LGPSC's Key Performance Indicators (both financial and non-financial)
- Commenced a review of the LGPSC Cost Sharing Model for 2019/20, and provided input into the development of recharge bridges to allow Partner Funds to understand the changes in costs from one year to the next
- Carried out due diligence on the Business Plans for Global Active Equity Multi-Manager sub-fund, Global Emerging Market Equity Multi-Manager sub-fund, Global Corporate Bond sub-fund; Master Private Equity Pooling Partnership LP vehicle and Low Carbon Multi Factor sub-fund in collaboration with the IWG
- Reviewed CIPFA's new guidance on *Preparing the Annual Report* and co-ordinated the consultation response on behalf of Partner Funds. Subsequently developed a disclosure template to be populated by LGPSC on allow Partner Funds to meet their annual account and annual report pooling disclosure requirements
- Started to develop the new Cost Savings Model in collaboration with LGPSC

Investment Working Group (IWG)

The Investment Working Group (IWG) has continued to meet monthly over the last six months with representation from Officers of all 8 Partner Funds, together with multiple attendees from LGPS Central Limited (LGPSC), dependent on the Agenda and other items for discussion and development.

Meetings have followed a similar format thus far, beginning with Partner Fund discussions on Strategic Asset Allocation (SAA) and the potential for shared investment opportunities; specifically, in the Alternatives space, where it is recognised that LGPSC may not be able to provide a sub-fund in the short to medium term. Product Development, given the combined investment priorities identified by the Partner Funds in December 2018, has been the main discussion topic with LGPSC.

Members of IWG, alongside Members of the Client Oversight and Governance Working Group (COGG) have been instrumental in the development of a Product Development Protocol (PDP) with LGPSC. This is a 9 Phase approach which documents the various stages of developing any new sub-fund, beginning with a strategy discussion at IWG and ultimately ending with the transition of assets into the sub-fund. Key to the PDP, however, is that at every Phase there is a 'client touch-point' for LGPSC which ensures that Partner Fund's (and their Advisors) continue to buy-into the product being developed and the investment managers appointed as part of the procurement process. If a Partner Fund (and their Advisors) or LGPSC are not in complete agreement, then the development of the product or procurement stage does not proceed to the next Phase, or it may be that the previous Phase gets revisited. Whilst this may seem onerous and bureaucratic and is likely to take 6-9 months in totality, it will ensure that sub-funds are launched with information being made available to all parties and within the full knowledge of all Partner Funds (and their Advisors). It should also ensure that the maximum assets available are invested.

Over the last six months, IWG has been focussed on the transitions of the:

- Global Active Equity Multi-Manager sub-fund
- Global Emerging Market Equity Multi-Manager sub-fund

And has approved Business Plans for the:

- Global Corporate Bond sub-fund
- Master Private Equity Pooling Partnership LP vehicle
- Low Carbon Multi Factor sub-fund



IWG's ongoing work includes:

- Development of the Infrastructure sub-fund
- Development of the Multi-Factor sub-fund
- Development of the Multi-Asset Credit sub-fund
- Development of the Emerging Market Debt sub-fund

Papers have also been received from LGPSC on:

- The case for investing in Global Smaller Companies
- The case for a 2% capped UK benchmark

Collaborating with IWG, LGPSC appointed both a Transition Advisor and a Transition Manager to assist with the transition of Partner Funds' assets into the Active External Global Equity Multi Manager sub-fund in March 2019. The Product Development Liaison Group (PDLG) was formed as part of this process.

PDLG consisted of a weekly 9am conference call on a Thursday morning with all interested parties involved; this included Partner Funds, the Transition Advisor and Transition Manager, Company representatives and Northern Trust as Depositary. All involved agreed this was a positive way to communicate and thus ensure a successful outcome to an extremely complicated multi-stakeholder transition. The PDLG format will be repeated with the Global Emerging Market Equity and Global Corporate Bond sub-funds in due course.

Given that LGPSC has been fully operational for over 12 months and now has considerable assets under management (AUM) the role of IWG needs to adapt. This became apparent in developing the PDP and it has been agreed that as well as Product Development and Investment Strategy, IWG has a significant role to play in monitoring Investment Performance, both performance of the individual sub-funds and the value add of LGPSC. To facilitate this, in April 2019, IWG meetings moved to a new quarterly cycle whereby the focus changes each month:

- Month 1 (Jan, Apr, Jul, Oct) – Product Development
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

Following Partner Fund's 2019 Actuarial Valuations and subsequent reviews of Investment Strategy, the IWG in September 2019 will be dedicated to Strategic Asset Allocation and agreeing the collective investment priorities of the Partner Funds with LGPSC to inform the product development, work plan and business case for the LGPS Central pool in 2020/21.

Responsible Investment Working Group (RIWG)

Over the last six months, the group's focus has shifted more towards development of a "toolkit" for supporting Partner Funds develop and monitor activity and initiatives in delivering Responsible Investment across the pool.

Annual review of the Company RI&E framework – the group engaged in the first annual review of the LGPS Central Limited's responsible investment framework and voting principles, with no significant changes to report. Compliance with the UK Stewardship Code will be reviewed for signatories (Partner Funds and LGPS Central Limited) following release of a new code by the FRC in July 2019.

Stewardship themes – following discussion and survey of Partner Funds, four top-down engagement themes have been agreed for the year. These will provide a focus for engagement activity, running alongside a number of other ongoing engagement themes (for example, executive pay). The stewardship themes for 2019/20 are:

- Climate Change
- Single-use plastics
- Technology and disruptive industries risk
- Tax – transparency and fair tax payment

Further information about these themes is set out in Appendix 2.

Engagement activity and reporting – the group continues to receive updates on company engagement activity noting in particular the progressive outcomes of the Climate 100+ initiative which is making marked progress in changing company behaviour in the management of Climate Change risk, as a direct result of engagement with institutional investors. The Quarterly Engagement Report provides an overview, with individual sub fund reporting being developed to include more specific detail on engagement relevant to holdings in LGPS Central's underlying investment funds.

AGM season and active ownership through voting – in preparation for a heavy voting season, a process has been established for Partner Funds to receive updates and feedback on voting advice and intentions, in line with the agreed Voting Principles, where these may be material and of interest and voting delegated to LGPS Central Limited through investment in pooled sub-funds.

Manager oversight – a framework for assessing and monitoring manager integration of RI considerations has been developed to run alongside the manager monitoring programme; with reporting back to Partner Funds being developed alongside wider sub fund reporting.

RI event for pool members – as interest in pension fund responsible investment activity continues to grow, together with the range of issues to discuss the group are currently working to develop a event for pool members, giving opportunity to come together, consider and debate issues first hand.



The Director of Responsible Investment & Engagement continues to support Partner funds individually with member training, development of Fund policies, responses to individual enquiries, and presentations to a variety of audiences. Following successful recruitment, the support team for this work is set to expand in June.

The group continues to monitor wider-market activity including the emergence of new research and guidance to inform policy review. Representatives from the pool continue to engage with the Cross-Pool RI group and LAPFF. New guidance for Funds on RI policy is being developed by the Scheme Advisory Board.

Background to working group

The RI Working Group (RIWG) has been established to work with the Company operator, LGPSC, to:

- Assist with the development and annual review of the Responsible Investment and Engagement (RI&E) Framework and supporting policies which govern the implementation of RI strategy within the Pool
- Establish working practices which enable the Company to support each Partner Fund in developing and delivering its own RI strategy
- Facilitate discussion on common issues (individual company and themes for engagement or relating to investment mandates) identifying areas for deeper dive review
- Receive updates on the Company's voting and engagement activity, supported by the appointed stewardship provider, and develop RI information and activity reporting to Partner Funds, the Joint Committee and individual Pension Committees

The RIWG is made up of representatives of four Partner Funds (Cheshire, Staffordshire, West Midlands and Worcestershire) and the Company's Director of Responsible Investment & Engagement. Feedback and recommendations from the RIWG are provided to each monthly PAF meeting.

Appendix 2 – Pool Stewardship Themes

Whilst stewardship activities will continue across a wide range of topics, the following have been selected as areas of focus for 2019/20

Theme	Rationale
Climate Change	<p>Climate change is regularly among the World Economic Forum’s top five global risks, both in terms of likelihood and impact. Through both physical risks (e.g. increases in extreme weather events) and market risks (e.g. impact of carbon pricing or technology substitution), climate change could come to impact institutional portfolios. In addition, greater incidence of flooding, wildfires, chronic precipitation, sea level rise, and so on, could have profound societal consequences.</p> <p>In the UK, campaign groups’ governments and regulators are increasingly taking an interest in the extent to which investors are managing climate-related risks.</p>
Single-use plastics	<p>Plastic pollution is a global problem that is continually growing due to both an increase in consumerism and an increase in the number of plastics used to manufacture the things we use on a daily basis. Many of these are single-use items, which are used once and then end up polluting the environment for hundreds of years. Some companies are starting to change the way they use these plastics, and are actively taking steps to reduce waste.</p> <p>As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, more plastic taxes, and reputational damage as consumers and policy-makers become more aware and mindful of the problem.</p>
Technology and disruptive industries risk	<p>In recent times child screen addiction has become a very real issue along with inappropriate content online, often spread via social media. These issues pose a threat to both the mental and physical health of future generations, the costs of which could be far-reaching. Evidence suggests that technological improvements have also contributed to over-consumerism within society (due to the ease of online shopping around the clock). This additional consumption contributes to environmental issues due to excessive packaging and the transportation of goods around the globe.</p> <p>Another modern technological threat is the risk of malicious political interference, which has been suspected in both the 2016 EU referendum and the most recent US presidential elections, posing a threat even to mature democracies. With technology stocks being a significant driver of global equity performance on a 3-5 year view, were ESG risks to further crystallise in this sector there could be material consequences for portfolios with an equities (particularly growth equities) bias.</p>
Tax - transparency and fair tax payment	<p>The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation’s contribution to the economies it operates in, tax is a key dimension in building that trust. In the current economic climate, the public is calling for a clearer picture of organisations’ tax policies, and the amount of tax they pay. At a societal</p>

	<p>level, the more companies that fail to pay their fair share of tax, the greater the financial strain on essential social infrastructure.</p> <p>Global corporate tax avoidance is estimated to cost governments \$240 billion globally in foregone revenues each year. Companies with overly aggressive tax strategies could be storing up liabilities and could damage their reputation with key stakeholders.</p>
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