

# **LGPS Central Joint Committee Meeting**

## **14<sup>th</sup> December 2018**

### **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.

#### **3. PAF Update**

Since the last meeting of the Joint Committee in June, PAF meetings have focused on the following:

- Launch of the Active External Global Equity Multi-Manager sub fund
- Asset transition arrangements
- LGPS Central Limited (LGPSC) Client Service Agreements
- Partner Fund internal audit co-ordination
- LGPSC Quarter 1 2018/19 Update
- September 2018 Shareholders' Forum Agenda
- MHCLG Autumn 2018 Update Report
- LGPSC cost sharing arrangements

Current priorities for PAF include:

- Transition of assets to the Active External Global Equity Multi-Manager sub-fund
- Product Development and Asset Transition Plan Update
- Review of LGPSC's 2019/20 Annual Budget and Business Plan
- Development of a new LGPS Central Pool Cost Savings Model

#### **4. Working Groups**

Five PAF 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.

## **Client Reporting**

The Client Reporting Working Group (CRWG) is made up of representatives from Cheshire, Derbyshire, Nottinghamshire, Staffordshire and West Midlands and has met twice since the last Joint Committee meeting. The focus for the group is to work collaboratively to develop the reporting to clients at all levels.

The Group at the outset considered the likely scope and depth of reporting requirements that clients might need going forwards, acknowledging that this would take time to develop. Partner Funds had looked at current reporting received from external providers and timescales for delivery and had compiled a list of key items from monthly, quarterly and annual reporting, this included items such as:

- Monthly valuation schedules
- Quarterly performance reporting
- Annual performance report
- Responsible investment reporting
- Freedom of Information requests

It was agreed that it would be helpful to be able to have a lot of the information accessible on a website and LGPSC has been working to develop a client portal where key client facing documents can be stored. Reporting timescales under a service level agreement structure have still be finalised, but it was recognised that it would take time for LGPSC to develop the reporting framework and that there need to be realistic timescales for delivery. Some consideration was going to be given to the possible appointment of an external provider to deliver reporting.

The CRWG has also looked at Fund requirements for reporting in their annual report and accounts and was keen to ensure that LGPSC signed up to the Transparency Code which it has subsequently done. Likely audit requirements, both internal and external, have been discussed to make sure that adequate information is available to provide to Fund auditors and this included a range of policy documents to help with assurance over the operation of the company.

The Group has also discussed the feasibility of holding information days to help with training and information flows. This included the possibility of holding product information days around the time of sub-fund launches to enable the product development process and manager selection appointment process to be explained and provide opportunities to ask questions. The first such product information day was held in September and provided Partner Funds with the opportunity to meet with the appointed managers for the external Global Equity sub-fund and hear in detail the process that LGPSC had gone through to deliver the sub-fund, which Funds had responded to positively.

A review of the client portal development and wider client and stakeholder engagement is scheduled for the next meeting of the Client Reporting Working Group.

## **Finance**

The Finance Working Group (FWG) is comprised of representatives from Derbyshire, Nottinghamshire and West Midlands. The FWG 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 June, the FWG has:

- Clarified the LGPSC cost sharing arrangements which include the right for Partner Funds to trigger a cost sharing review
- Assisted the Partner Funds' internal auditors in the development of a joint approach to auditing Partner Fund pooling arrangements and to auditing LGPSC (it should be noted that internal auditors from Staffordshire County Council have taken a lead in the development of a Pooling Assurance Framework)
- Reviewed LGPSC's Annual Report to March 2018 and the Company's Q1 18/19 Budget Monitoring Report
- Carried out initial due diligence on LGPSC's draft 2019/20 budget, reported back to PAF and co-ordinated PAF's response to LGPSC
- Started to develop the new Cost Savings Model in collaboration with LGPSC (Partner Fund objectives have been agreed (see below), high level principles have been discussed with LGPSC and a model that mechanically works has started to be built)

### **Partner Fund Cost Savings Model objectives:**

- quantifying savings from 2014/15 to 2017/18
- forecasting savings from 2018/19 to 2033/34
- able to measure actual savings in the future against the forecast
- measuring price and quantity variances\* (where there has been a change in quantity) in line with CIPFA guidance
- presenting pool level and individual Partner Fund cost savings
- able to run scenarios

- clearly communicating key drivers to stakeholders
- bridge the new savings forecast to the original savings forecast

\*The price variance measures the extent to which fee rates have generated savings. The quantity variance measures the extent to which fees have changed in line with the value of the assets on which they are based.

## **Governance**

The Governance Working Group (GWG) is comprised of representatives from Cheshire, Derbyshire, Shropshire and West Midlands. The scope of the GWG includes the review of legal agreements, maintenance of the Pool's Risk Register, and review of the initial pooling agreements.

A GWG meeting was held in October, primarily to cover the Pool's Risk Register. The group was satisfied that there was nothing in the Company's Risk Register that was not covered in the Pool's Risk Register. It was apparent that the Company and the Pool use different scoring methods but both were accepted as being reasonable. The Chair and Vice Chair of the Joint Committee have been through the detail of the Risk Register prior to the Joint Committee meeting. The next meeting of the GWG, in January 2019, will include a review of the initial pooling agreements to determine whether any amendments are required now that LGPSC is up and running as it has been some time since these were last reviewed.

## **Investment**

The Investment Working Group (IWG) is made up of representatives from each of the Partner Funds and meets every third Thursday of the month in Stafford. The IWG has been established to carry out the following functions:

- At a Partner Fund level, IWG provides a Forum for Officers to discuss:
  - Strategic Asset Allocation;
  - Potential investment opportunities across all asset classes; and
  - Common investor issues.
- On occasion, IWG may invite external experts and investment managers to discuss current thinking and market developments in certain asset classes. This will facilitate constructive challenge, both within IWG and with LGPSC.
- IWG will work with LGPSC in developing the Product Offering Delivery Schedule.
- IWG will act as a collective in working with the Chief Investment Officer and the Investment Directors at LGPSC to develop and scope the individual product offerings.
- IWG is the Forum for LGPSC to discuss strategy and ultimately new investment ideas.

IWG has met monthly over the last six months. Meetings typically begin with a discussion on Strategic Asset Allocation (SAA) giving attendees the opportunity to understand changes that are being considered by Partner Funds and the motivation behind proposed changes. Investment opportunities and investment vehicles being considered by Partner Funds are also shared and discussed; these are typically in the alternative asset classes, where it is recognised that LGPS Central Ltd will not be in a position to provide a sub-fund in the short to medium term.

The majority of IWG meetings have been attended by the Chief Investment Officer of LGPS Central Ltd and the relevant Investment Director, depending on the product offering being discussed. Over the six months, IWG has been instrumental in the development of the:

- Global Corporate Bond sub-fund specification;
- Master Private Equity Pooling Partnership LP vehicle;
- Factor Based Investment sub-fund, to now include a low-carbon offering; and
- Scoping the LGPS Central Infrastructure Offering to meet the collective needs of Partner Funds.

Over the period, IWG has also continued to work with LGPSC regarding the appointment of a Transition Advisor and the delivery plan for the imminent transition of Partner Funds assets into the Active External Global Equity Multi Manager sub-fund.

### **Responsible Investment (RI)**

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



Since the RIWG last reported to the Joint Committee in June 2018, the Voting Principles, a key part of the Framework, were updated and posted on the Company website in September 2018<sup>1</sup>. This outlines the principles the Company will apply to exercise delegated voting rights, primarily those attached to securities held within investment sub funds launched within in the Company's Authorised Contractual Scheme (ACS).

As announced in October 2018, Hermes Equity Ownership Services (EOS) has been appointed to provide stewardship services to the pool. This includes execution of the Voting Principles, active engagement with investee companies, support for LGPS Central's stewardship themes (which are climate change, cyber security, and diversity), policy engagement, and support with co-filing shareholder resolutions.

Alongside development of the externally managed Global Equity Active Multi-manager sub-fund, the RIWG has considered both the focus on ESG integration within the manager selection exercise and discussed the approach the Company will take to routinely review and monitor delivery against the RI standard expected from appointed managers. A process has been established by the Company to regularly review managers and increase monitoring, if required.

The Group continues to review and feed into product development, including the development of a sustainable global equity mandate and consideration of factor-based equity strategies.

Two Quarterly Stewardship Reports have now been produced, circulated to Partner Funds and published on the Company's website. These summarise the stewardship activity undertaken on behalf of Partner Funds, progress against the stewardship themes, details of shareholder voting activity, and wider policy engagement. The latest version, issued November 2018, can be found at: <https://www.lgpscentral.co.uk/wp-content/uploads/2018/11/LGPS-Central-Quarterly-Stewardship-Report-No-2.pdf>.

Reporting on Responsible Investment & Engagement activities has also been developed for the Company's Quarterly Strategic Asset Allocation Report and within the performance reporting for individual sub-funds.

The Director of Responsible Investment & Engagement has been supporting Partner funds individually with member training, development of Fund policies, responses to individual enquiries, and presentations to a variety of audiences.

The RIWG continues to monitor wider-market activity including the emergence of new research and guidance to inform policy review. The Scheme Advisory Board for the LGPS is developing new guidance for Funds on RI policy and this is expected to be available ahead of the year-end. The Company's RI&E Framework will undergo its first annual review in March 2019.

## **5. Recommendation**

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

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<sup>1</sup> <https://www.lgpscentral.co.uk/wp-content/uploads/2018/09/LGPS-Central-Voting-Principles.pdf>