

LGPS Central Joint Committee Meeting Friday 29th June 2018

Practitioners' Advisory Forum Report

Purpose of the Report

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

PAF Terms of Reference

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.

Activities

The group meets once a month in Stafford and standing items to date have included: updates from LGPS Central Ltd (LGPSC or the Company); working group reports; and feedback from cross pool meetings. Recent meetings have also focused on:

- MHCLG Spring Progress Report
- LGPSC Client Service Agreements
- Pool Risk Register
- Investment Offer/Transition Plan
- LGPSC PAF Quarterly Report
- Joint Committee Agenda

PAF's priorities will evolve as the Pool develops. Current priorities include:

- agreement and execution of LGPSC legal documents
- joint development of an updated Product Development and Asset Transition Plan
- joint development of an updated Cost Savings Model
- format of LGPSC PAF Quarterly Report

In order to efficiently share out the pool related workload of the Partner Funds, and develop areas of specific focus, several working groups have been established. These working groups assist the delivery of PAF's priorities and support Partner Fund decision making but they do not take decisions on behalf of the Partner Funds.

PAF has the following working groups:

Working Groups

Client Reporting

Finance

Governance

Investment

Responsible Investment

Lead

Jill Davys West Midlands

Dawn Kinley Derbyshire

Justin Bridges Shropshire

Melanie Stokes Staffordshire

Rachel Brothwood West Midlands

Client Reporting

The Client reporting working group is made up of representatives from Cheshire, Derbyshire, Nottinghamshire, Staffordshire and West Midlands and liaises with LGPS Central Ltd to develop client reporting that meets the requirements of Partner Funds. A list of reporting requirements was drawn up earlier in the year covering in detail the level and nature of reporting required monthly, quarterly and annually. This covered reporting requirements for both shareholder matters such as the Annual Report and Accounts as well as investment reporting which is in line with the level of reporting currently received from external investment managers, including reporting on responsible investment activities.

LGPS Central Ltd is currently developing its reporting suite and the group is liaising over the format of these, with the first monthly reports in relation to the new ACS passive internal equity sub-funds being reviewed by the group and confirmation that these covered the key requirements for funds reporting. The final versions of these for April have now been published and circulated to all Partner Funds. For information a copy of the Global ex UK Active Passive sub-fund report for April 2018 has been attached to this report as Appendix 1. The second of the monthly reports, covering the ACS passive sub-funds for May 2018, is due to be issued shortly.

The working group will be meeting with representatives of LGPS Central Ltd to review the quarterly reporting requirements and format in the near future as well as considering future developments which could include the use of an external provider to produce comprehensive investment reporting to meet client requirements.

Finance

The Finance Working Group is currently made up of representatives from Derbyshire, Nottinghamshire and West Midlands and assists PAF with pool related Client and Shareholder financial matters.

The Group undertook comprehensive due diligence on LGPS Central Ltd.'s 2018/19 Annual Budget and represented the Partner Funds in the budget negotiations with the Company, subsequently supporting the development of an updated agreement between the Partner Funds on cost sharing.

Current working group priorities include:

- joint development (with the Company) of an updated Cost Savings Model
- liaison with the Company to develop appropriate ongoing financial reporting to the Partner Funds
- establishment of the process for the ongoing review of cost sharing
- development of a coordinated audit approach to LGPS Central from the Partner Funds

Governance

Governance matters have previously been dealt with at PAF. In the future, PAF will be assisted on governance matters by the newly created Governance Working Group which is comprised of representatives from the majority of the Partner Funds. Short term priorities are likely to include:

- finalisation of the LGPSC legal agreements
- maintenance of the Pool Risk Register
- review of the initial pooling agreements

Investment

The Investment Working Group meets monthly to discuss a range of investment matters, both at an individual Partner Fund level e.g. Strategic Asset Allocation and at a pooled level, in terms of potential shared investment opportunities within the asset classes.

The group, made up of representatives from all of the Partner Funds, is the primary route for investment discussions with LGPS Central Ltd, and the various Investment Directors, in developing the investment offering to Partner Funds. Discussions to date have focused on Private Equity, Fixed Income and Factor Based Investing. Working with the Company in this way means that the views of all Partner Funds can be expressed as a collective and areas of concern or for potential compromise can be identified at an early stage in the process. In due course, the group will be the forum to which the Company will bring their new investment ideas.

To give some ongoing insight into new ideas and best practice across investment markets, the group will invite external companies to attend their meetings. Outside Engagement in this way ensures that Partner Funds remain aware of current thinking and are able to challenge the Company, and their ideas, in a more constructive way.

The group's priorities over the next few months will be to appoint a Transition Manager and a Transition Adviser to assist Partner Funds with the forthcoming Active External Global Equity transition, thus creating the fourth and largest LGPSC sub-fund, and the joint development of the updated Product Development and Asset Transition Plan.

Responsible Investment (RI)

The RI Working Group has been established to:

- assist with the development of LGPS Central Ltd.'s Responsible Investment and Engagement (RI&E) framework and supporting policies
- establish working practices for LGPS Central Ltd supporting Partner Funds and (LGPS Central Pool collectively through the Joint Committee) in delivering their own responsible investment strategies
- 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 LGPSC voting and engagement activity and review and develop RI activity reporting to Partner Funds

The working group currently includes representatives from three Partner Funds (West Midlands, Cheshire and Staffordshire) and LGPS Central's Director of Responsible Investment and Engagement (the Director). It is not a decision making body but provides a forum for wider discussion and development of ideas back to Partner Funds and LGPS Central Ltd.

Ahead of LGPSC's first sub-fund launch in April 2018, the Joint Committee considered at its meeting in March 2018 the Company's Responsible Investment Framework. The Framework had been developed following consideration of Partner Funds' own Responsible Investment strategies and Investment Strategy Statements and approval by LGPS Central Ltd Board.

A set of voting principles is currently being developed based on a survey of Partner Funds' voting policies and beliefs. This will inform the LGPS Central Ltd voting policy which is being developed alongside a specification for an outsourced stewardship services provider that LGPS Central Ltd will procure over the summer.

The Director is actively working on specific engagements relevant to clients whose investment activity is being supported through discretionary or advisory agreements. A summary of engagement activity, together with action taken to support the three stewardship themes agree for the year (climate change, diversity and cyber security), will be produced and reported to all Partner Funds in a Quarterly Stewardship Report. The working group has reviewed the format and proposed content for this report, the first edition will be available for sharing with local pension committees in September.

The group are developing a process whereby ad hoc common and material issues can be considered collectively and in conjunction with the Director, to build and share information to inform individual Partner Fund responses. As part of the product development process, the group will support and consider any sub-fund investment mandates which may have a responsible investment focus. The group is currently meeting monthly, with this expected to extend to quarterly later in the year.

Recommendation

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