



LGPS Central Joint Committee Friday 14 February 2020

Item 6: Practitioners' Advisory Forum Update Report of the Practitioners' Advisory Forum

1. Purpose of the report

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

2. Background

- 2.1 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.
- 2.2 PAF is supported by four individual working groups:
 - Client Oversight & Governance Group
 - Finance Working Group
 - Investment Working Group
 - Responsible Investment Working Group.
- 2.3 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

- 3.1 Through PAF, Partner Funds have achieved a great deal in delivering Investment Pooling in line with government requirements including ensuring appropriate oversight and governance disciplines and controls, both internally to their own Local Authorities and in respect of the investment pool company LGPS Central Ltd (LGPSC). Partner Funds have delivered this work alongside their day-to-day roles within their own organisations and it is acknowledged that a more focussed support resource is required to continue to build on this success in consideration of the increasing level of administration associated with a collaboratively owned company.



3.2 In August 2019, PAF appointed interim support in consideration of the demands on partner funds to manage the day-to-day operational elements of overseeing LGPSC alongside their respective Fund roles and their shareholder responsibilities of LGPSC.

3.3 Since the last meeting of the Joint Committee in June 2019, PAF and its working groups have continued to focus on the following:

- Product Development Protocol Implementation and the introduction of a Transition Management Protocol
- Cost Sharing Review & Update of the Cost Savings Model following the completion of a cost transparency review
- The LGPSC. Business Plan, Annual Budget & KPIs
- Product Development & Future Sub-Fund Launches
- MHCLG response for an update on progress in investment pooling.
- LGPS Central Pool Risk Register
- Audit Assurance oversight for both governance and investment
- Development of the Pool's Responsible Investment Framework including delivery of key stewardship and engagement themes
- Supporting the work of the Shareholders' Forum and the Joint Committee

3.4 Current priorities for PAF and its working groups include:

- To continue to deliver investment pooling
- To complete key fund launches and transitions to meet Partner Fund strategic objectives
- Ensure that LGPSC reporting meets the needs and requirements of its invested funds
- Ensuring that there is clarity over the governance arrangements for LGPS Central Investment Pool
- Ensuring that Responsible Investments remains at the forefront of investment pooling

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

4. Recommendation

4.1 The Joint Committee is asked to note:

- a) that the ongoing work of the PAF and its working groups will continue to be reported to Joint Committee



Appendix 1 Report of PAF Working Groups

Client Oversight & Governance Group (COGG)

1. The Client Oversight and Governance Group (COGG) has focused this year on key areas of governance and oversight and on working to develop reporting, not only on LGPSC sub-funds but also to focus on other key performance areas.
2. LGPSC have been in attendance at all meetings.
3. 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 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
4. During 2019, the group met every month (with the exception of November, where the meeting 'gave way' for the Infrastructure Away Day hosted by LGPSC for Partner Fund Members). The meetings have seen, and continue to see, good attendance and engagement from both Partner Funds and LGPSC.
5. COGG has established a number of Task and Finish groups to progress key pieces of work and feedback to the main COGG meetings. This has assisted with progressing delivery of key areas of work in terms of oversight and governance:
 - **Investment Reporting** – Whilst ACS sub-fund reporting has been in place since the first 3 sub-funds were launched in April 2018 relating to passive



Appendix 1 Report of PAF Working Groups

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 to provide stakeholders with the necessary information to understand how their assets are performing in sub-funds.

- **KPIs** – Working with LGPSC to ensure appropriate (and measurable) distinct Shareholder and Client Key Performance Indicators are implemented and tracked.
 - **LGPS Central Pool Risk Register** – Has continued to assess and monitor key risks, for the Pool, risks that the Joint Committee should be aware of that could lead to delays or disruption to the development and delivery of investment pooling. A report on Risk is provided separately to the February Joint Committee Meeting.
 - **Governance** – 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 current focus for this Task and Finish Group is developing (building on the Governance arrangements in place) appropriate Governance structure and process that reflect the fact that LGPSC is now operational, this includes addressing all the recommendations that emerged from the Governance Audit completed in November/December 2019.
6. In addition, COGG has developed close and effective working arrangements with LGPSC on events planning and feedback, communications and audit assurance work in conjunction with the internal audit working group.



Appendix 1 Report of PAF Working Groups

Finance Working Group (FWG)

Review of Financial Statements

1. Since the last Joint Committee meeting in June, FWG has reviewed LGPSC's:
 - Unaudited Accounts to 31st March 2019
 - Annual Report & Financial Statements for the year ended 31st March 2019
 - Q1 & Q2 2019/20 Quarterly Financial Reports
2. FWG has represented the Partner Funds in discussions with LGPSC on these financial statements and has presented detailed briefings to PAF on the statements and the discussions with the company.

Cost Sharing

3. A review of the 2019/20 LGPSC Cost Sharing Model, which formed the basis of the company's charges to Partner Funds from April 2019, has been carried out by FWG. The review was undertaken to ensure that LGPSC's proposed charges were consistent with the Cost Sharing Agreement which was agreed with Partner Funds on the launch of the business. FWG has also carried out a review of the invoices issued to Partner Funds by LGPSC.

Strategic Business Plan/Budget Due Diligence

4. FWG's review of LGPSC's 2020/21 Strategic Business Plan (SBP), which includes the company's proposed 2020/21 budget, commenced in November 2019, on receipt of the first draft of the SBP.
5. A number of due diligence meetings have been held with LGPSC and detailed business plan/budget analysis has been provided to PAF. FWG has co-ordinated the Partner Funds' subsequent feedback to the company.

Cost Savings Model

6. The development of a new Cost Savings Model (CSM), in collaboration with LGPSC, has been a major undertaking for FWG. The CSM has been developed to:
 - ***quantify savings from 2014/15 to 2017/18 (pre the launch of LGPSC)***
 - ***forecast savings from 2018/19 to 2033/34***
 - ***measure actual savings in the future against the forecast***



Appendix 1 Report of PAF Working Groups

- ***measure price and quantity variances (where there has been a change in quantity of assets under management) in line with CIPFA guidance***
 - ***present pool level and individual Partner Fund cost savings***
 - ***run scenarios***
 - ***clearly communicate key drivers to stakeholders***
7. The extended period of time taken to complete the cost transparency analysis, due to the withdrawal of the original provider from the market, delayed the finalisation of the CSM. However, Partner Funds have now completed their individual reviews of the transition assumptions contained in the CSM and the Cost Savings Model is currently going through its final review process by PAF and LGPSC.



Appendix 1 Report of PAF Working Groups

Investment Working Group (IWG)

1. The Investment Working Group (IWG) has continued to meet monthly over the last eight 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.
2. The new quarterly meeting cycle, implemented in April 2019, has become embedded for IWG and is working well.
 - 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
3. Whilst the focus changes each month, there is always the potential need for matters to be considered outside of the quarterly cycle. Such matters are accommodated at the next IWG through the adopted urgent decisions processes to enable efficient decisions and actions and prevent unnecessarily impact
4. The September 2019 IWG saw the inaugural Strategic Asset Allocation (SAA) Day with Partner Funds and the CEO and CIO of LGPS Central Ltd discussing the 8 Partner Fund's individual SAA and Investment Strategies (IS). It was recognised that any changes Partner Funds were considering making to their SAA or IS, following the results of the 2019 Actuarial Valuation, will likely affect the products that the Company are being asked to develop and the collective priorities for such. The combined output would be used to inform and develop the Strategic Business Plan and Budget for LGPS Central Limited in 2020/21 and 2021/22.
5. Albeit work has already begun on the development of some of the products (*), the following priorities were agreed:

2020/21		2021/22	
Global Factor Based Equity	*	External Active Japanese Equities	
Emerging Market Debt	*	Fixed Income G10	
Global Multi Asset Credit	*	Private Debt	
External Active UK Equity	*	External Active Global Small-Cap Equities	
Infrastructure (Advisory)	*	Targeted Return	
Private Equity (2020 Vintage)		Private Equity (2021 Vintage)	
Direct Property	*	Indirect Property	
Liability Driven Investment (Research Project)	*	Liability Driven Investment (Development Project?)	
Gilts (Discretionary)			
Sustainable Equities (Advisory)			

*indicates work has commenced in 2019/20



Appendix 1 Report of PAF Working Groups

6. Over the last eight months, IWG has been focussed on the transitions of the:
 - Low Carbon Multi Factor sub-fund; and
 - Global Corporate Bond Multi-Manger sub-fund
7. The Product Development Liaison Group (PDLG) has continued to hold weekly calls on any transitions in progress. These involve all Stakeholders, including the Depository, Transition Manager and Advisors.
8. IWG has approved Business Plans for the:
 - Emerging Market Debt sub-fund and
 - Global Multi-Factor sub-fund
9. And IWG's ongoing work includes:
 - Development of the 8 Infrastructure Advisory mandates;
 - Development of the External Active UK Equity sub-fund; and
 - Development of the Multi-Asset Credit sub-fund.
10. Papers have also been received from LGPSC on:
 - Property
 - Targeted Return / Absolute Return
 - Derivatives and their use in efficient portfolio management.
11. Two of the last eight IWG meetings have focussed on Performance Monitoring, with February being the next scheduled meeting where these items will be discussed. Performance reports have been received from LGPS Central Limited together with report from the underlying managers. Officers attending IWG have asked searching and challenging questions of these reports presented by the Company to enable high level assurance on the management, philosophy and process of investment management both at a sub-fund and at a manager level.
12. Going forward, underlying managers appointed to a sub-fund will be invited to attend IWG in person and, where considered appropriate, a representative of IWG may attend the LGPSC monthly meeting with appointed managers to better understand any issues or areas of concern.



Appendix 1 Report of PAF Working Groups

Responsible Investment Working Group (RIWG)

1. This group focuses on the ongoing development of a “toolkit” for supporting Partner Funds in delivering Responsible Investment across the pool.
2. **Stewardship themes** – Following agreement of Stewardship themes earlier in the year, an Annual Stewardship Plan has been developed to monitor initiatives and progress against the objectives set for each of the selected pool themes:
 - Climate Change
 - Single-use plastics
 - Technology and disruptive industries risk
 - Tax – transparency and fair tax payment
3. Further commentary on the rationale for focusing on these areas is included in the Appendix. Commentary on the pool’s direct and collaborative engagement activity is included within LGPS Central’s Quarterly Stewardship Report https://www.lgpscentral.co.uk/wp-content/uploads/2019/11/2019-11_QSR_v8.pdf
4. The themes are being reviewed ahead of 2020/21, noting developing interests, for example, in initiatives focusing more on Human Rights (such as Modern Slavery) and the social aspects of Climate Change and need for a Just transition.
 - **Climate Change risk analysis** – through partnership with specialist service providers, the LGPS Central Responsible Investment team are developing tools and reporting to assist review and assess exposure to Climate Change risks within investment portfolios.
 - **Emerging policy and guidance** – since the Joint Committee last met in June 2019, a new version of the UK Stewardship Code has been published and the Scheme Advisory Board (SAB) for the LGPS England & Wales has issued Part 1 of guidance on Responsible Investment. A number of Partner Funds are signatory to the code and will be reviewing compliance against the new standard, which has a greater focus on activity and outcomes, over the transition period to March 2021. The SAB guidance aims to provide clarity on the parameters for operating a Responsible Investment policy within the LGPS, as a collective we are already highly compliant and do a lot in this space
 - MHCLG guidance in relation to Pension Fund Investment Strategy Statements is also expected to be updated to incorporate the requirements for Administering Authorities to set strategic investment objectives for their investment consultants.
 - **RI event for pool members** – following a successful event in 2019, the group is working to develop the agenda for a second RI day to be held early July



Appendix 1 Report of PAF Working Groups

2020. This will provide the opportunity for all Partner Fund members and officers to join with the Company in debating issues first hand and reviewing the work of the pool in responding to an area of increasing significance to investment strategy.

Background to working group

5. The RI Working Group (RIWG) has been established to work with 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

6. The RIWG is made up of representatives from each of the Partner Funds and representatives from the Company's Responsible Investment & Engagement and Client services teams.

7. Feedback and recommendations from the RIWG are provided to each monthly PAF meeting. Representatives from the pool continue to engage with the Cross-Pool RI group and LAPFF.



Appendix 1 Report of PAF Working Groups

Appendix – Pool Stewardship Themes

Whilst stewardship activities continue across a wide range of topics, the following were selected as areas of focus for 2019/20 and will be reviewed based on feedback from Pension Committees and the Joint Committee in February 2020.

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</p>



Appendix 1 Report of PAF Working Groups

Theme	Rationale
	<p>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>
<p>Tax - transparency and fair tax payment</p>	<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 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>