

LGPS CENTRAL POOL – PROGRESS UPDATE

Introduction

1. This report updates Committee on progress towards delivering investment pooling.

Recommendation

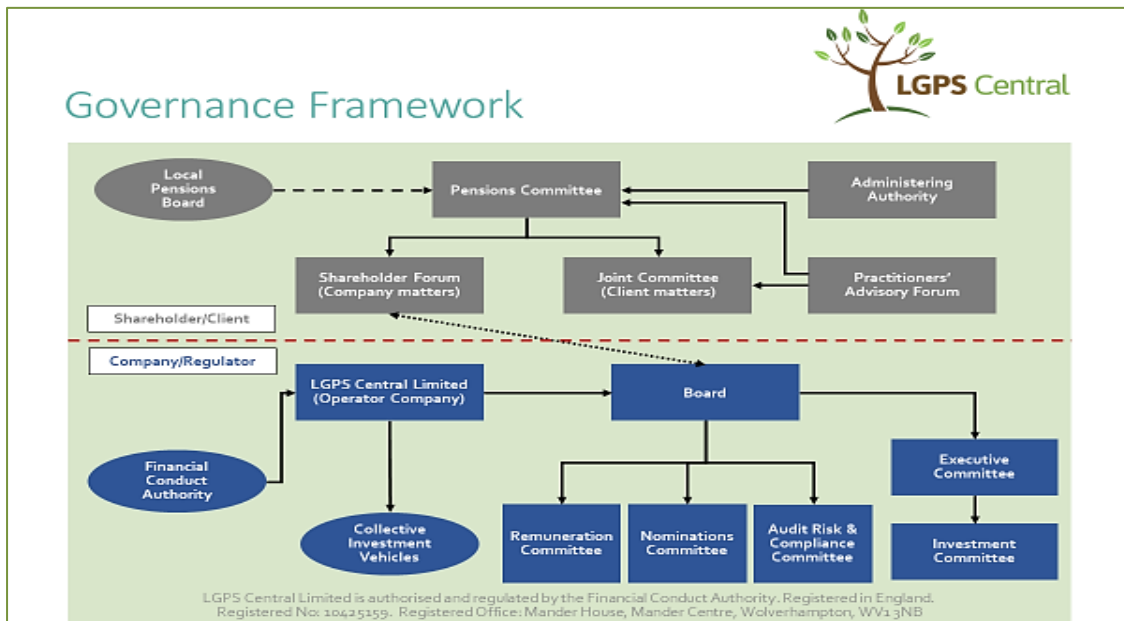
2. The Committee is asked to note the progress made to date.

Background

3. The LGPS Central Pool is made up of eight partner LGPS pension funds, Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire.
4. Together the partner funds have created a wholly owned company called LGPS Central Ltd (LGPSC). The partner funds are equal shareholders in LGPSC and are also its clients.
5. The partner funds have agreed eight shared objectives with LGPSC, which are to:
 - i. Meet the investment objectives of the Participating Funds
 - ii. Establish a collaborative platform through which administering authorities of the Participating Funds can aggregate their pension assets with a view to providing scale economies and improved investment efficiency
 - iii. Develop internal investment management capabilities for the collective benefit of the Participating Funds, in order to provide wider investment choice and market competition
 - iv. Create capacity to invest in asset classes which individual Funds may find difficult to access
 - v. Stimulate innovation, and provide an opportunity for Funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector)
 - vi. Act as a responsible, long term investor, using its influence as a shareholder to promote the highest standards of corporate stewardship
 - vii. Create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments
 - viii. Following transitioning arrangements, to invest each Shareholder's pension assets either through the ACS operated by LGPS Central, as the primary and exclusive collective investment vehicle for all eligible pension assets, or by appointing LGPS Central to manage any non-eligible pension assets outside of such ACS.

Pooling Governance

- Specific governance arrangements have been established reflecting the partner funds roles as business owner and client of LGPSC and this is shown below. Members will note that the chart is split between shareholder/client and company governance



Shareholder Forum

- The Shareholder Forum’s primary role is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the Shareholding Councils within the LGPS Central Pool. The Shareholders’ Forum is independent of LGPSC and its meetings are distinct from Company meetings, however members of the Shareholders’ Forum will also represent the Councils at Company meetings.
- The Shareholders’ Agreement ensures that the Councils act in a unified way, having agreed to a common set of principles and collective Shareholder discussions will take place in the Shareholders’ Forum.
- Shareholder influence over LGPSC, which is required to ensure that LGPSC is compliant with Public Contract Regulations (commonly known as Teckal provisions), is demonstrated via the reserved matters in the Shareholders’ Agreement.
- Membership of the Shareholders’ Forum consists of one representative from each Council, to be determined locally by the individual Council. Cheshire West and Chester Council’s representative is the Portfolio Holder for Finance and Legal.

Joint Committee

11. Joint Committee is a public forum for the Councils within the LGPS Central Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPSC business case and to deal with common investor issues. Joint Committee minutes are reported to this Committee. The last meeting was held on 14 February 2020 and papers and minutes are publically available and hosted on the Cheshire Pension Fund website.

Officer working groups

12. The Practitioner's Advisory Forum (PAF) is the main officer working group. It is a working group of Section 151 and Pensions Officers to support the delivery of Pool objectives and to provide support for the Joint Committee and Shareholders' Forum. LGPSC has a standing invite to, and attends, all PAF meetings to facilitate joint working.
13. PAF aims to speak as "one voice" to reduce the duplication of costs and resources and maximise the benefits of scale. PAF is supported by four working groups who focus in more detail on governance, finance; investments and responsible investment. Over the last year much has been achieved including:
 - Agreeing an investment product development protocol
 - Implementation and introduction of a Transition Management Protocol
 - Investment product launches (including Global Equity Active Multi Manager Fund, Emerging Markets Equity Active and Climate Factor Fund)
 - Developing client side reporting tools with LGPSC
 - Update of the Cost Savings Model for the pool as a whole
 - Review of LGPSC's business plan, budget & KPIs for 2020-21 (ongoing)
 - Managing the LGPS Central Pool Risk Register
 - Commissioning internal 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

Assets transitioned

14. The combined value of Partner Fund assets amount to some £42bn (snapshot Dec 2019). Of this total, circa £10bn is invested in passive funds managed by Legal & General Investment Management (LGIM) which were procured jointly by the partner funds.
15. As at December 2019, total value of assets under the stewardship of LGPS Central Limited totalled almost £20bn – close to two thirds of total partner fund assets, excluding those invested in LGIM life funds.

16. In conjunction with partner funds, LGPSC has launched nine pooled funds as shown below. All eight partner funds within the Central Pool have now invested in at least one of LGPSC's pooled funds.

LGPS Central Fund	Asset Class	Inception	Active/ Passive	AUM £m	CPF invest ed £m
UK Passive Equity Fund	Equities	04-2018	Passive	1,148	0
Global (Ex UK) Passive Equity Fund	Equities	04-2018	Passive	2,193	0
Global Passive Equity Dividend Growth Factor Fund	Equities	04-2018	Passive	526	0
Private Equity Primary Partnership 2018 LP	Private Equity	01-2019	Active	150	20
Private Equity Co-Investment Partnership 2018	Private Equity	01-2019	Active	107	2
Global Equity Active Multi Manager Fund	Equities	03-2019	Active	2,388	279
Emerging Markets Equity Active Multi Manager	Equities	07-2019	Active	626	0
All World Passive Equity Climate Multi Factor Fund	Equities	10-2019	Passive	2,144	531
Global Investment Grade Corporate Bond Fund	Bonds	01-2020	Active	1,330	0
				10,612	832

17. The remaining assets under management with LGPSC are held in discretionary and advisory funds, these should transition over time into pooled funds as products are developed.

Future investment product pipeline

18. The table below shows the product development pipeline that partner funds have agreed with LGPSC for the coming twelve months. The table also shows the funds in which the Cheshire Pension Fund is aiming to invest.

Fund	Fund Structure	Possible Cheshire investment
Sustainable Equities	ACS	✓
Infrastructure	tbc	✓
Private Equity 2019/20 Vintage	Limited Liability Partnership	✓
UK Active Equities, Multi Manager 2% Cap	ACS	
Global Multi Asset Credit	ACS	✓
Emerging Market Debt	ACS	✓
Fixed Income/Gilts	Discretionary	
Property	tbc	✓
Global Factor Based	ACS	
Target Return	tbc	
UK Small Companies	ACS	
Global Small Companies	ACS	
Note: ACS = Authorised Contractual Scheme		

19. All prospective LGPS Central products are developed via an agreed Product Development Protocol. This protocol sets out nine product development phases which are designed to give ample opportunity for all partner funds to shape requirements and sign off proposals at key stages. Progress against the protocol is reviewed at monthly meetings of PAF and its investment working group.
20. Similarly, the performance of existing LGPSC funds is monitored collectively by partner funds on a quarterly basis. The LGPSC Portfolio Manager for each of the nine existing funds provides a summary of fund performance and answers questions from partner funds. Where relevant, the Portfolio Manager in turn meets with the appointed external investment manager(s) and scrutinises their performance. Where particular concerns persist with regard to individual manager performance, partner funds reserve the right to meet and question external managers directly.
21. Locally, full details of the investment performance of LGPSC funds in which the Cheshire Pension Fund has invested is reported to the Investment Sub-Committee each quarter. Where appropriate, this includes commentary from the LGPSC portfolio manager on the performance of the particular fund.

Economies of Scale and Cost Savings

22. The second stated objective of the pool is to “Establish a collaborative platform through which administering authorities of the Participating Funds can aggregate their pension assets with a view to providing scale economies and improved investment efficiency”.
23. The Ministry of Housing, Communities and Local Government oversee delivery of pooling nationally and have recently collected data from all pools on progress made towards achieving the Government’s pooling objectives. The Central Pool return highlighted that investment management fee savings are estimated at £247.8m by 2033/34 with a break-even point estimated at 2024/25.
24. It is important to note significant assumptions sit behind these figures, particularly the pace of the transition of assets to LGPSC. Investment fees also fluctuate with the value of assets under management and changes in each Fund’s strategic asset allocations. An example of this locally is the Cheshire Pension Fund’s move out of hedge funds (traditionally one of the most expensive asset classes), plus we are seeing existing managers lower their fee rates in advance of pooling.