



# LGPS Central Joint Committee

## Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

#### **Attending:**

**Councillors:** Kerry (Chair), Biggins (Vice-Chair), Atkin, Greatorex, Jaspal, Middlebrough, Osborne, Simkins

#### **Other Attendees:**

**Partner Fund representatives:** Rachel Brothwood (RB), Jill Davys (JD), Mark Haines-Eynon (MEH), Rachel Howe (RH), Dawn Kinley (DK), Keith Palframan (KP), Charles Riley (Clerk, CR), Maggie Sheppard (MSh) Melanie Stokes (MS), Chris Tambini (CB), Rob Wilson (RW)

**Unison Representative:** Malcolm Cantello (MC)

**LGPS Central Ltd (LGPSCL):** Callum Campbell (CC), Dave Evans (DE), Michael Marshall (MM), Colin Pratt (CP), Joanne Segars (JS), Jaswant Sidhu (JSi), Mike Weston (MW)

**Observer:** Neil Calvert (Derbyshire CC) Employee Representative

#### **Item 1 – Apologies for absence:**

- 1.1 **Apologies** – Councillor Hogg - Owing to the rearranged date of the Joint Committee due to the proximity of the General Election, Councillor Hogg experienced a scheduling clash and was unable to attend today.

**Substitutes** – None

#### **Item 2 – Declarations of Interest:**

- 2.1 No declarations of interest were received.

#### **Item 3 - Minutes of the last meeting - 21<sup>st</sup> June 2019**

- 3.1 No matters arising. The minutes were confirmed as a correct record. Proposed and seconded by Councillors Atkin and Greatorex.
- 3.2 **The minutes were approved unanimously.**



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

#### **Item 4 – Public Question Time/Open Session**

- 4.1 A member of the public submitted a written question, which is published on the LGPS Central Joint Committee webpage.
- 4.2 MM responded on behalf of LGPSC Ltd. by reading out a prepared response which has also been published on the LGPS Central Joint Committee webpage, at:

<https://www.cheshirepensionfund.org/members/about-us/how-we-manage-the-fund/governance-structure/pfc/>

#### **Item 5 – National LGPS Picture**

- 5.1 RB presented a summary of recent national developments and current issues impacting the LGPS, and ongoing development and implementation of investment pooling specifically, including:-
- The developing role of the Pensions Regulator in the context of Public Sector Pension Schemes, since 2015, noting the annual survey and cohort review of the LGPS to better understand fund administration practice and governance; and a new single code of guidance applying to all schemes, expected to emerge in the near future.
  - Noting the current focus of Funds to Complete the Fund triennial valuation reviews with the potential for associated review of investment strategy, and the potential for the need to amend individual Fund strategic asset allocations in line with their own individual outcomes.
  - The Scheme Advisory Board's review of guidance and approaches to Responsible Investment in the context of new DWP regulation and the updated UK stewardship code. Updated statutory investment pooling guidance is also awaited, together with guidance on the adoption of objectives for investment advisers following finalisation of the Competition and Markets Authority (CMA) order in 2019.
  - The market backdrop, noting ongoing trade dispute and negotiations with China, together with the Coronavirus outbreak and pending US election, mean there are fluid factors presenting additional risks to large scale asset



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

transfer, as well as general increased focus on day to day investment management activity and performance.

- 5.2 Asset allocation varies across Funds, reflecting differing funding requirements and appetite for risk – there is also potential for a general shift towards assets in the property, income and infrastructure funds across the industry. Pool product development to date has focused largely on equities – looking ahead over the next 4-5 years, a wider range of products are expected to emerge to meet strategic asset allocation requirements.
- 5.3 Investment costs – data released by the Scheme Advisory Board shows that cost disclosure has increased across the LGPS in recent years in line with encouraged best practice. A pool-wide exercise to look at consistent cost data collection has confirmed that the overall picture of current pool investment costs is assessed on a transparent basis. With regard to allocation of cost, illiquid assets such as and private equities and infrastructure funds carry a premium. Based on the current assessment, less than 25% of the investments are incurring 2/3rds of the costs. The up-to-date assessment will be helpful in informing future product development through the pool.
- 5.4 Councillor Kerry: thanked RB for her presentation and commented upon the difficulty encountered when new guidance and regulations are delayed in being introduced. There does, for now, appear to be a greater strategic requirement for growth and income generating assets. The changes in primary rates and pressure on employers are reflected in areas where there is higher allocation to growth. He asked how well prepared are the partner funds for change?
- 5.5 RB noted that she could not comment on each individual fund preparations but noted that Fund officers had discussed Strategic Asset Allocation day to inform review of the product development priorities. In terms of funding, and the implications for future investment strategies, both the increase in non-local authority backed employers and requirement to pay exit credits were bringing more into question the need for differential investment strategies at employer level, to reflect covenant, maturity and path to exit.
- 5.6 Councillor Atkin: CIPFA annual report guidance was last published in March 2019. When is the next guidance published?
- 5.7 RB – the annual reporting guidance published in 2019 had introduced increased reporting requirements for Fund administration and investment



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

pooling and cost disclosure. Some items have been introduced as optional and “may” be included but the level of voluntary response is likely to be monitored.

- 5.8 MC: Slide 7 costs. He is aware of an improvement on disclosure but noted Committee members have been keen to better understand and monitor the transition costs relative to expectation when the original plan for pooling was developed.
- 5.9 RB – The transitional costs are been considered for each fund launch with updated realised and future expectations of cost built into the cost saving model. Following completion of the cost transparency exercise, work is underway to update the cost saving projections and a report on this will be made at a later date.
- 5.10 The Committee agreed to formally receive the report, in the light of the foregoing comments/feedback.**

#### **Item 6 Practitioners Advisory Forum Report**

- 6.1 RW presented an update on the work of PAF and its constituent working groups (responsible for Client Oversight and Governance, Finance, Investments and Responsible Investment respectively) via the report and appendices. The update highlighted the key areas of focus for the officer working groups over the last six months, which included:-
- The recruitment of Mark Haines-Eynon as project co-ordinator in recognition that pooling is a significant change programme and to support the increased volume of work required,
  - The possible recruitment of administrative support,
  - Ongoing discussions regarding the company’s strategic business plan and budget.
  - New pooled products coming on-stream such as the Bond fund launched this week.
  - The development of the Emerging Markets sub-fund and the Global Equities sub-fund
  - Responsible investment themes agreed and being reported quarterly
  - Thanks given to Neil Smith at Derbyshire for his continued hard work on the costs saving model
  - Performance monitoring of company delivery has developed with client and shareholder key performance indicators now in place.



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

- Proactive scrutiny of company investment performance by the Investment Working Group
- 6.2 Councillor Kerry moved the recommend the report. Members will be happy they can put their views across and see more clearly the work undertaken.
- 6.3 Councillor Greatorex: It is useful to see the different stages of working in the team and how the partner funds are working together. Paragraph 3.3 of the report shows the agreed protocol for transition management and sub-fund launches. He asked how flexible to enable PAF to vary its processes to meet the new requirements and the development of LGPSC? Secondly, at Appendix 1, the table at paragraph 5, is that a priority listing within the year or to try to achieve all at once? Could the aims be scheduled per month?
- 6.4 RW – the product development protocol is flexible to meet partner fund's needs. The working groups and monthly meetings allow for flexibility and do continue to adapt. The product development tool is very useful to assess different types of products. The timetable is in terms of flow process and is in terms of priority order.
- 6.5 Councillor Osborne: Members of the individual funds' authorities who sit on their pension committees regularly ask how matters are proceeding. The original objective is to pool to make savings and committees want to see quick proof. They are aware that pooling has not gone as quickly as they expect. It appears transition is not happening as quickly as planned. Why is this?
- 6.6 MS – It is true the pace has not been as fast. Lessons have been learned. The setting up of the product development protocol has necessarily delayed matters to ensure a smooth transfer of assets but pace should now accelerate. The individual partner funds' committee cycle slows matters and resources only allow for one fund launch at a time. It is better to introduce the funds correctly rather than rushing them. Savings targets are being broadly met. Minimising transition costs and market risk is key.
- 6.7 Councillor Kerry: the costs saving model is being updated and more information can be obtained from PAF.
- 6.8 Councillor Simkins: We need accurate reporting to reassure members on transition cost.



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

- 6.9 RW – PAF provides oversight and IWG, with the company, has worked hard on the product development protocol which is now moving forward after a difficult initial start-up period. In terms of reporting, recruiting MHE gives additional focus on reporting and benefits are being seen.
- 6.10 Councillor Kerry: Should any authority have concerns it can be fed through to MHE and through him to PAF and COGG.
- 6.11 RB – It is helpful that the shared partner fund officer is in place at a strategic level. In order to meet long term efficiency savings it is worse to rush and make huge cost errors, HS2 being a case in point.
- 6.12 JS – Agree that we should be doing things right rather than quickly. It has been a significant learning curve for all pools. JS commented that her contact with other pools suggests similar initial issues as regards pace of transfer. The agreed product development protocol will speed matters up and we have the right governance input in place. The Climate Fund introduction was quicker with flexibility in terms of meeting the partner funds' needs.
- 6.13 The Committee agreed that the report be received and noted.**

#### **Item 7 Internal Audit Assurance Programme**

- 7.1 MSh presented the written report and highlighted that the audit was conducted by Staffordshire CC officers and was very useful. It was a review of pooling governance and not LGPS Central Ltd. There was a positive response with good feedback. All recommendations will be actioned.
- 7.2 Councillor Kerry moved to recommend the report.
- 7.3 Councillor Atkin: Appendix 2, section 3 states a good response and engagement from company. MSh – confirmed this was the case. .
- 7.4 Councillor Greatorex: This seems to be a positive resolution on a short timescale.
- 7.5 Councillor Simkins: Will there be a training programme for members and partners? MSh – This is part of a work plan for the coming year with the support



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

office. The will be liaison to include as many members and partners as possible.

#### 7.6 The Committee agreed to formally receive the report

#### **Item 8 Pool Risk Register**

8.1 JD presented the LGPS Central Investment pool risk register, explaining that the risks identified related to the pool as a whole, distinguishing them from those that might typically relate to individual partner funds or LGPSC Ltd. JD highlighted:

- Regulatory risk is diminishing and COGG focuses on this aspect. Guidance on RI has affected strategy.
- Brexit has had a huge impact and caused delay in issuing guidance.
- RI coordination of partner funds enables wider policy approach.
- The company is delivering further reports to go to pension committees.
- Pace has been the difficulty but it is better not to incur costs and get allocation reviews wrong and there is no point in investing without clear partner fund aims.

8.2 Councillor Kerry: moved the recommendations of the report. He also noted the two elements to firstly recognise risks honestly and secondly making right decisions to mitigate those risks.

8.3 Councillor Greatorex: I echo that strategy is the number one risk. There are high risk aspects and the risk register serves to mitigate that. The focus must be on the risks with highest impact. If the timescale is not achieved it will go wrong on returns.

8.4 Councillor Atkin: Regular review by COGG vital. Political risk will always be high so why include it?

8.5 JD – confirmed COGG does review risk with the other three sub-groups reporting back on risk to COGG. On political risk there does need to be recognition of its existence. Brexit may fall away but others may arise, such as Scottish independence.



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

- 8.6 Councillor Simkins: Is there a role for the Shareholders to set up a strategy group?
- 8.7 Councillor Kerry: There are two paths for this: Joint Committee and Shareholders' Forum, which can feedback concerns.
- 8.8 The Joint Committee approved the report and noted the Risk Register will continue to be assessed and updated and will be reported to Joint Committee.**

#### **Item 9 LGPSC Limited Performance/Investment Outlook/Company Update**

- 9.1 MS presented a brief introductory report and invited the Company representatives to make their slide presentation on overall performance, company picture, investment performance and client survey.
- 9.2 MW – the company has made major progress in launching additional funds, most recently the Corporate Bond fund with expected assets of £1.6bn . Assets under management at end of December 2019 total £20bn of which £11bn is in seven pooled ACS funds and 1 other vehicle. Work underway on the Emerging Markets fund and Global Credit fund.
- 9.3 DE, CP, JSi and CC made reports accompanied by the slides presented to the Committee
- 9.4 Councillor Kerry: Moved the report
- 9.5 Councillor Atkin asked several questions:
- Is the passive Equities fund a tax efficient vehicle? DE confirmed it was and a large amount of work went in to achieve that status.
  - The two private equity funds have different benchmark numbers? JSi confirmed this was due to different start dates.
  - Global Active fund - how much is the underperformance due to one manager? CP explained that the fund's aim of consistent stable growth was to have a balance of managers with different investment styles to net out under-performance and over-performance. Therefore Union's under-performance was not, at this stage, too worrying and the differing styles would lead to a surprise if all three managers outperformed simultaneously.



## LGPS Central Joint Committee

### Minutes of the meeting held on 14<sup>th</sup> February 2020

### Council Chamber, County Buildings, Stafford ST16 2LE

- It states in the slides that three ACS funds are outperforming but only two seem obvious – MW I only identify two also, although there is a differential in terms of the start date on one of them.

#### 9.6 Councillor Biggins asked several questions:

- On the Passive Equity fund, do you lend stocks to other funds? DE – There is a stock lending programme with monthly reconciliations to record stocks lent and income earned.
- For active funds, the Committee will need clear reporting on benchmark and targets. Will there be a record of this? DE confirmed there would be.
- The green boxes on the passive equity slides at 11, 13 and 15 show reserved funds. What are they for? JSi explained that two of the managers hold fees outside the product as there may be future investment required to maximise returns, needing additional funding
- MC commented that the client survey goes out to a restricted group. Can it be widened next time to individual members of the partner funds' pension committees? CC responded that this would be considered for the next annual survey. JS confirmed the company was keen that as many voices be heard as possible.

9.7 Councillor Kerry commented on the Union underperformance that the active funds had a mix of managers and this was useful to diversify market risk, being the longer-term aim.

9.8 CP responded that there are differing investment styles and diverse stock selection. There are three different types of manager with different processes for investment returns. The aim is to retain a balanced range of investment styles. Union had made some stock decisions investing in higher risk and illiquid stocks. If two of those bad stock decisions were removed the picture would be better. It was also a question of a timing move and hopefully will not reoccur. The review process for stock selection has also been modified.

#### 9.9 **The Committee agreed to formally receive the report**

#### **Item 10 Training/Events Calendar**

9.10 MSh relayed details of the

- Company Stakeholder day to be held on 11<sup>th</sup> March 2020.



## LGPS Central Joint Committee Minutes of the meeting held on 14<sup>th</sup> February 2020 Council Chamber, County Buildings, Stafford ST16 2LE

- A Responsible Investment day is planned for 3<sup>rd</sup> July 2020. This was to be structured along the same lines as the previous infrastructure day, which was a valuable exercise.

9.11 Councillor Kerry thanked MSh.

**9.12 The Committee agreed to formally receive the report**

---

The Chairman announced that the next meeting of the Joint Committee will be published in due course. The meeting was closed.

---

I declare these minutes are a true record of the Joint Committee meeting held on 14<sup>th</sup> February 2020

Signed by: (Signature of the Chairman)

Received by Charles Riley, Clerk