LGPS Central Joint Committee Briefing

August 2020

1. Introduction

1.1 The LGPS Central Joint Committee usually meets twice a year, in June and December. Following the Covid 19 lockdown in March 2020 the decision was taken to cancel the June 2020 Joint Committee meeting.

1.2 The next Joint Committee meeting is scheduled for 20 November 2020. In consultation with Joint Committee, this meeting will be held as a physical or virtual meeting or a hybrid of both, depending on the Covid 19 social distancing guidance in place at the time

1.3 Officers committed to provide a briefing for Joint Committee members on pooling progress and the performance of LGPS Central Ltd funds.

1.4 This Briefing provides information for Joint Committee on
- Covid 19 Response
- Pooling delivery update
- Business Plan and Budget
- Investment Performance and Company update
- Cost savings
- Responsible Investment
- Risk Register update
- Training and Future Events

1.5 The briefing includes updates at Appendix 1 and 2 from LGPS Central Ltd on recent investment performance and company developments.

2. Covid 19 Response

2.1 Partner Funds and LGPS Central Ltd have continued to progress pooling delivery throughout the Covid 19 lockdown. Thankfully, staff have largely stayed well and been very flexible in adapting to the new ways of working.

2.2 Partner Fund and company staff moved almost entirely to working from home. Partner Funds faced early challenges in relocating office-based benefits administration teams from office to home-based working; all successfully managed the challenge of accounting year-end occurring during the initial lockdown period.

2.3 Working group meetings, including the Practitioner Advisory Forum, Investment Working Group and Responsible Investment Working Group involving Partner Fund and company officers have continued throughout lockdown. Virtual meetings tools and skills have been developed to host meetings and share documents consistently.

2.4 The company established twice-weekly calls for Partner Funds through which it provides updates on the company's Covid 19 activity and gives market updates for partner funds.

2.5 Partner Funds and the Company are reflecting on lessons learnt from responding to the pandemic, particularly as regards different ways of working, such as continuance of virtual meetings, that would be effective to embed going forward.

3. Pooling delivery Update

3.1 At the end of June 2020, the value of assets managed by LGPS Central Ltd was £19.3bn (£17.4bn at March 2020). Partner Funds have invested some £10.538bn in pooled funds with the remainder under segregated mandates.

3.2 Assets under management of £19.3bn represents some 55% of Partner Fund assets available for pooling at 30 June 2020 (assets totalling circa £10bn invested in Legal & General passive funds collectively procured by partner funds prior to the creation of the pooled delivery vehicle are not included in the total assets available for pooling figure above).

3.3 The Investment Working Group and the Company have agreed a pipeline of products to be delivered in 2020-21. These new funds have the potential to add a further £3.5bn to £4.0bn to the value of assets managed by the Company. The funds expected to be launched this year are shown below.

Fund/Mandate	Current position
MAC (Multi-Asset Credit) Fund	Procurement commenced
EMD (Emerging Markets Debt Fund	Procurement complete
Global Equities Factor Fund	Business case approved
UK Equities Fund	Under review by Partner Funds
Infrastructure Fund	Business case in final stages
Property Fund	Due autumn 2020
Discretionary Gilts mandate	Mandate in place
Sustainable Equities Fund **	Under review by Partner Funds
Private Equity 2020 Vintage Fund**	Under review by Partner Funds

** Launch of the Sustainable Equities Fund and the Private Equity 2020 Vintage are subject to the approval of associated business cases.

4. Business Plan and Budget

4.1 The Company has provided its outturn for 2019-20 which was an underspend of £1.125m against the 2019-20 approved budget of £10.57m. The Company has provided a detailed explanation of the reasons for the underspend and this has been reviewed by the Finance Working Group.

4.2 Joint Committee will be aware that clients pay charges based on four categories of Company costs as summarised in the table below.

Cost sharing apportionment	
Cost type	**Apportionment basis**
Corporate Governance*	1/8th each
Operator Cost*	In proportion to each fund's share of total assets owned
Investment Management & Monitoring*+	Proportionate to Assets Under Management (AUM) in each LGPSC fund
Product Development	In proportion to each fund's share of total assets owned
* These categories of cost are subject to 20% transfer pricing mark-up + Discretionary/Advisory mandates do not attract mark-up	

4.3 As a result of the Company's underspend in 2019-20, client charges for governance, operator costs and product development, amounted to £7.03m a reduction of £0.27m compared to budgeted charges.

4.4 Following the deferment of the Company meeting in March 2020, the Shareholder Agreement provides that if a new business plan and annual budget is not confirmed the business plan and budget for the preceding financial year remains in force. Hence the Company has significant financial provision to meet its current running costs.

4.5 Partner Funds and the Company have had constructive and lengthy discussions to agree an updated business plan and budget for 2020-21. This has now been agreed based on a roll forward of the 2019-20 business plan to deliver the funds listed in paragraph 3.3. above with specific adjustments for full year effect of funds launched in 2019-20.

4.6 These discussions highlighted the need to take stock of Partner Funds' ambitions and shared objectives for the Company which were set in place some four years ago. The joint aim of the Company and Partner Funds is to have an updated shared understanding to be reflected in the Company's 2021-22 business plan which will be presented to shareholders for approval.

5. Investment Performance and Company Update

5.1 LGPS Central Ltd is now managing seven collective funds invested in equities or bonds. It is also managing a private equity limited partnership.

5.2 Appendix 1 summarises the performance of these funds in the quarter ending 30 June 2020, over a rolling 12-month period and since inception. Joint Committee will note that since inception, the passively managed funds are achieving their target, but the actively managed global and emerging market funds are not.

5.3 The Company has provided further commentary on investment performance and wider company developments at Appendix 2

6. Cost Savings

6.1 Now that the budget for 2020-21 has been agreed, work to update the Cost Savings Model will be finalised and a report on cost savings will be presented to the next Joint Committee meeting.

7. Responsible Investment

7.1 The Responsible Investment working group has oversight of RI activity of the pool – since the Joint Committee met on 14 February 2020 the group has met to review the pools Stewardship Themes and activity and progress towards meeting the goals set out within the Annual Stewardship Plan.

7.2 The Stewardship themes adopted for the next three years are:

- **Climate Change** – among the top five global risks identified by the Global Economic Forum, the physical and transitional risks are better understood, with growing interest in social aspects and "just transition" as research shows regions within the Central pool could face higher economic cost
- **Plastics** – as pollution continues to cause large scale environmental and social issues across the globe, attention to usage and regulation on disposal is set to grow, with rapid increase in consumer support
- **Tax** – with a new focus on global tax policies and fairness, geographies and organisations who get this right stand to build the intangible benefit of trust with their Stakeholders
- **Technology and disruptive industries** – with concerns on content, distribution, health implications and weak labour rights, there are a number of risks which could impact shareholder value over the long term.

7.3 The Quarterly Stewardship reports prepared by the LGPS Central Ltd team provides an overview of the engagement activity undertaken on behalf on Partner funds and in conjunction with the Company's appointed engagement and voting provider Federated Hermes EOS.
https://www.lgpscentral.co.uk/wp-content/uploads/2020/05/LGPS-Central-QSR-Q4-2019-20.pdf

7.4 Over the next six months, the group will be looking more closely at the UK Stewardship Code 2020 and delivery of individual Partner Fund Climate Risk monitoring reports.

7.5 In early July, the pool held its second Responsible Investment Summit, through a virtual platform. The summit provided an opportunity for all Pension Committee, Local Pension Board and Officers with the opportunity to find out more on current issues, the LGPS Central RI framework and engagement activity and hear from industry experts looking at, amongst other things, the impact of COVID-19 and action on Climate change.

7.6 The Summit was well attended by representatives across Partner Funds.

8. Risk Register

8.1 Partner Fund officers, working with the Company have continued to monitor the pool risk register. Appendix 3 shows the high-level risk assessment as at June 2020.

8.2 The risk register reflects the risks to the Investment Pool in its widest definition. It should not be seen as a reflection of the risk assessment of either the company or individual Partner Funds, although there are inevitably some areas of common ground.

8.3 The risks covered have been divided into eight categories as shown in the table below.

Risk Category	Scope
Resources	Includes recruitment and retention at both LGPSC Ltd but also Partner Funds as well as budgetary constraints
Regulatory Environment	Recognises the regulatory arena in which both the pension funds and the company operate
Political	Encompasses both changing attitudes to investment pooling but also the wider political environment
Reputational	Risks around negative press coverage around what is a major change management project, but also challenges around ESG risks
External and Third Party	Recognises reliance placed on external providers and concentration of suppliers in some areas
Strategic	Risks of divergence from strategic objectives of delivering investment pooling including delays to product development and transition of assets
Investment	Recognising that investments have inherent risks and returns can fluctuate, liability valuations change over time impacting Partner Fund asset allocation which in turn may change products required from LGPSC.
Operational and Financial	Encompass cyber security, budget management and day to day operational management

8.4 Joint Committee will note that after applying controls there are two risks flagged as red, namely political risk and strategic risk.

- Political – an unchanged rating from the last assessment as many of the factors, such as the economic impact of Covid 19 and Brexit are, and are likely to continue to be, outside the control of the investment pool.
- Strategic– again an unchanged rating from the last assessment recognising the delayed launch of a number of sub-funds anticipated in last year's strategic business plan; some emerging changing Partner Fund priorities and investment requirements. The ongoing discussions described in paragraph 4.6 above should enable the strategic risk rating to be reviewed in due course.

8.5 All other risks are flagged as medium except for the Covid 19 response risk which is green reflecting the positive action taken by partner funds and the company to continue to deliver services and keep staff safe and well during the pandemic.

9. Training and future Events

9.1 Due to the impact of the Covid 19 lockdown, it has not been possible to arrange face to face training events for Joint Committee and officers will review the options for delivery of training going forward as more guidance emerges on the lifting of lockdown.

9.2 The Scheme Advisory Board and wider LGPS and pensions sector have been facilitating online updates and information sessions, which Partner Funds have been sharing with their pension fund committee members.

LGPS Central Joint Committee
Briefing June 2020
Appendix 1
LGPS Central Pooled fund performance - June 2020

LGPS Central Ltd Fund	RAG Status	Active/ Passive	Size £m	June Quarter %	1 year %	Since Inception %	Inception Date Date	Partner Funds No.
UK EQUITY								
• Return achieved • Benchmark: *FTSEAllShare (UK) Index (Total Return)* • Relative		Passive	946.6	10.27 10.17 0.10	-12.95 -12.99 0.04	-1.89 -1.86 -0.03	Apr-2018	2
GLOBAL EX-UK EQUITY								
• Return achieved • Benchmark: Central Global Ex UK Passive Blended • Relative		Passive	2,193.7	18.99 *19.03* -0.04	3.86 *3.68* 0.18	6.53 *6.35* 0.18	Apr-2018	2
GLOBAL EQUITY DIVIDEND GROWTH FACTOR								
• Return achieved • Benchmark: S&P Aristocrats Blend • Relative		Passive	502.9	16.01 15.85 0.17	0.22 0.33 -0.10	7.92 8.28 -0.36	Apr-2018	1
ALL WORLD EQUITY CLIMATE MULTI FACTOR								
• Return achieved • Benchmark: FTSE All World Climate Balanced Comprehensive Factor Index (Total Return) • Relative		Passive	2,173.1	18.42 18.38 0.04	n/a *n/a* n/a	4.73 4.58 0.09	Oct-2019	2

Appendix 1

LGPS Central Pooled fund performance - June 2020

LGPS Central Ltd Fund	RAG Status	Active/ Passive	Size	June Quarter	1 year	Since Inception	Inception	Partner Funds
GLOBAL ACTIVE EQUITY MULTI MANAGER			£m	%	%	%	Date	No.
• Return achieved • Target: FTSE All World (Sterling Total Return) • Performance Relative to Target (B/mark + 1.5% p.a.)		Active	2,345.3	21.04 20.12 +1.08	3.10 7.22 -4.12	8.79 12.74 -3.95	Mar-2019	6
EMERGING MARKETS EQUITY ACTIVE MULTI MANAGER								
• Return achieved • Benchmark: *FTSE All World (Sterling, Total Return)* • Performance Relative to Target (B/mark + 2.0% p.a.)		Active	606.3	18.21 19.38 -1.17	N/a	-2.94 -1.16 -1.78	July-2019	3
GLOBAL ACTIVE INVESTMENT GRADE CORPORATE BOND MULTI MANAGER FUND								
• Return achieved • Benchmark: Customised: • Performance relative to target (B/mark + 0.80% p.a.)		Active		9.78 8.67 +1.11	N/a	13.69 12.87 +0.82	Mar-2020	4

	RAG Status	Active/ Passive	Size		Funds Drawn down	Funds Drawn down	Inception Date	Partner Funds
			£m		£m	%		
PRIVATE EQUITY 2018 VINTAGE	N/a	Active	150.0		16.0	10.7	Jan-2019	

LGPSC Passive Funds Commentary (Quarter to end June 2020)

UK PASSIVE EQUITY FUND

UK shares rebounded strongly during the quarter, recording their strongest quarter since 2010. Investors were optimistic about an economic recovery from the coronavirus crisis, helped by the support given to industry from the Treasury and further stimulus measures announced by the Bank of England. However, as the quarter progressed, some of the enthusiasm in the market was dampened by evidence of an acceleration of new cases of COVID-19 at a global level.

The Fund traded within its tracking error, returning 10.27%.

The Fund was rebalanced on 19 June in line with the quarterly index changes announced by FTSE. Nine stocks were added to the index, the largest of which were Liontrust Asset Management and BB Healthcare Trust, two companies in the Financials sector. A further nine stocks were deleted and these included brewing company Marstons following merger activity and retirement home builder McCarthy & Stone following a reduction in its value. Private investor platform Hargreaves Lansdown saw an uplift to its benchmark weighting as the company issued new shares. Outside of the review, UK building company Taylor Wimpey and Hikma Pharmaceuticals also saw increased investability weightings in the index during June.

In corporate activity, Whitbread completed its rights issue, raising £1 billion in equity, providing a well needed boost to its balance sheet following the closure of many of its hotels and pubs during the lockdown period.

GLOBAL (EX UK) PASSIVE EQUITY FUND

As the economy began to reopen after coronavirus lockdowns around the world, markets rallied sharply, and sterling investors recovered almost all the losses seen in Q1. Initially, investors were optimistic that measures to slow the rate of infection were working and news of stimulus packages by governments and central banks, as well as positive economic news, gave markets a well needed boost. However, towards the end of the quarter, the pace of positive performance slowed as reports emerged of a resurgence in virus cases in some countries which seemed to unsettle the markets.

During the quarter, the Fund traded within its tracking error, returning 18.99%.

The Fund was rebalanced on 19 June in line with the quarterly index changes announced by FTSE. There were relatively few constituent changes with only four additions and four deletions. However, several companies within the Fund saw changes to their shares in issue and index investability weightings as part of the review. US companies Amazon and Uber Technologies along with German software company SAP all saw increases to their index weighting, whilst Danish pharmaceutical company Novo-Nordisk and US banking group JP Morgan saw a reduction in their respective index weights. Outside of the review, German finance company Wirecard filed for insolvency following the discovery of a £1.7 billion hole in its accounts caused by an accounting fraud. As a result, the shares fell more than 80% and the stock was deleted from the benchmark.

In corporate events, Japanese machinery giant Hitachi completed the sale of its chemical subsidiary Hitachi Chemical to fellow Japanese chemical producer Showa Denko in a deal valued at $8.8 billion. Shareholders in Hitachi Chemical received an amount of JPY 4,630 per share.

GLOBAL DIVIDEND GROWTH FACTOR FUND

The Fund traded within its tracking error during the quarter, returning 16.01%.

Four stocks were deleted from the benchmark index at the end of June. US retailer Ross Stores, UK chemical company Johnson Matthey, UK luxury brand Burberry and Australian investment management firm Challenger Ltd were all removed from the index. Each of these companies either cut, suspended or cancelled their dividend payments, often citing solvency issues or a loss of cashflow due to the difficulties experienced during the Coronavirus pandemic. This comes on the back of several deletions from the benchmark in April and May for similar reasons. In total 13 companies lost their index position during the quarter.

In other activity, the holding in Infosys ADR was further reduced during the quarter and was switched to the local Indian line.

ALL WORLD EQUITY CLIMATE MULTI FACTOR FUND

The Fund traded within its tracking error during the quarter, returning 18.42%.

When compared to the market cap index, the AW Climate Balanced Comprehensive Factor Index continues to deliver a substantially reduced exposure to companies with high levels of both carbon emissions and fossil fuel reserves and an increased exposure to companies that are seeking cleaner, alternative sources of energy.

Measured over the last 12 months, the Climate Factor index outperformed the market cap index by 1.11%. It is estimated that the climate characteristics contributed approximately 0.36% of this additional performance.

There was only one minor change to the Fund during the quarter. Japanese chemical firm Showa Denko completed the acquisition of the remaining shares in rival company Hitachi Chemical. Shareholders in Hitachi Chemical received an amount of JPY 4,630 per share.
In corporate activity, T-Mobile announced a 1:20 rights issue valued at approximately £1.6 billion. The capital raising was to fund the repurchase of T-Mobile shares previously held by Japanese company Softbank.

There was only one minor change to the Fund during the quarter. Japanese chemical firm Showa Denko completed the acquisition of the remaining shares in rival company Hitachi Chemical. Shareholders in Hitachi Chemical received an amount of JPY 4,630 per share.
In corporate activity, T-Mobile announced a 1:20 rights issue valued at approximately £1.6 billion. The capital raising was to fund the repurchase of T-Mobile shares previously held by Japanese company Softbank.

LGPSC Active Funds Commentary (Quarter to end June 2020)

EMERGING MARKETS EQUITY ACTIVE MULTI MANAGER FUND

Managers continue to perform differently to each other, with certain managers showing negative correlations.

In **April,** the market bounced with the benchmark gaining 7.53% in the month. BMO delivered a positive outperformance beating benchmark by 257bps due to the Indian over-weight and Chinese tech. **May** performance continued to be positive with the benchmark up 2.92%. UBS followed this trend beating benchmark by 136bps due to LATAM and oil plays, but BMO retrenched, losing 217bps relative in the Month as India slowed. **June** returns were again strong up 7.47%, yet again UBS showed its strength, benefitting from its overweight in China. BMO was relative performance was negative again down 219bps. Vontobel was the worst performer in the quarter due to its overweight in China and quality stance which does not always benefit in recovering markets.

The fund has performed slightly behind its target levels in all periods. At manager level, BMO has been consistently negative whilst UBS is consistently positive versus target return requirements.

GLOBAL EQUITY ACTIVE MULTI MANAGER FUND

Managers continue to perform differently to each other with low correlations.

April produced very strong returns as markets bounced back from oversold levels after a torrid first quarter. Harris outperformed with Union and Schroders both below the benchmark. **May** saw a continuation of the rally as investors reacted to stimulus efforts from the world's central banks. Harris and Schroders outperformed the benchmark, although Union underperformed for a second month. **June** provided another positive month, although the pace of growth slowed. Investor sentiment remained strong on hopes for an effective treatment of Covid-19. All the portfolios outperformed over the month.

Outperformance from Harris was pleasing especially as the Value style continues to underperform Growth. Despite outperformance, the Fund remains behind the benchmark and therefore the targeted return since inception.

LGPSC Private Equity Funds Commentary (Quarter to end March 2020)

PE PRIMARY PARTNERSHIP 2018 LP

The Fund's underlying primary commitments are in the early phases of their investment periods. During the first quarter of 2020 the Fund called a further 5.3% from Partner Funds, increasing the total drawdown from Partner Funds at the end of Q1 to 10.7%. Permira VII issued its first capital call during the quarter to fund 2 portfolio company investments. KKR Europe V made two capital calls to fund 3 investments.

The global spread of coronavirus (Covid-19) and the economic shutdowns have caused unprecedented declines in GDP activity. Despite Governments reacting with unparalleled stimulus packages the future impact of the pandemic is unknown. Presently the travel, leisure, retail, hospitality and hiring sectors have seen the highest impact. The Fund is only lightly exposed to these sectors. To reflect the uncertain environment managers have begun writing down investments. Material declines in valuations are likely to be seen from Q2 2020 onwards, until either some normality returns, or a cure is found. However, adversity creates dislocation, which throws up opportunities and as significant capital commitments have still to be invested, managers are well placed to take advantage of any drop in entry prices.

PE CO-INVESTMENTS PARTNERSHIP 2018 LP

Extending the investment period of the Partnership by the maximum allowable three additional consecutive months (to the end of January 2020) enabled LGPS Central Limited to undertake one final investment and conclude the Fund build out. The Fund called a further 17% of committed capital taking total drawdowns to 88%.

One of the Funds earliest investments, GFL Environmental completed a dual listing of 29% of its equity on the Toronto and New York stock exchanges during the quarter. Despite Covid 19 the share price has remained resilient.

Sponsoring GPs are working closely with management teams of the respective businesses to protect their staff and clients as well as ensuring they have sufficient liquidity for the next 9-12 months of potential continued lockdowns.

Despite the economic contraction the valuations for Q1 2020 were only marginally lower than before the crisis erupted. This bodes well for the longer-term prospects of the investments, even if the next few quarters see further softness in valuations.

LGPS Central Limited – Corporate Update

- LGPS Central Limited Staff have continued to operate seamlessly during the Covid-19 lockdown, heeding Government advice to work remotely from home. All staff were provided with the necessary support and equipment to enable them to fulfil their duties and obligations to Clients, Stakeholders and Regulators alike. Regardless of the unusual environment we find ourselves in, business continues uninterrupted and product development and product launches continue.

- The health, safety and wellbeing of LGPS Central Limited Staff remains a priority. The Company has put into action a set of plans and guidelines to ensure the gradual return of employees to the office at Mander House in Wolverhampton and to the office in Matlock. Formal individual risk assessments are now available for staff to complete before they return to the office, ensuring that the Company takes all the necessary steps to ensure the safety of its staff. Likewise, the office premises at Mander House has supplies of sanitiser and face masks available to all employees, whilst ensuring that the office layout allows for 2 metre social distancing, and a one-way system for accessibility.

- In terms of Staffing and recruitment, we are delighted that Gordon Ross has now formally taken up the post of Chief Investment Officer following the departure of Jason Fletcher. Active recruitment is under way for the role of Head of Private Markets as is the role of Director, Responsible Investment, ahead of Michael Marshall's departure later in the year. The Company is very grateful for the support, service and dedication of both Jason and Michael who have contributed so much to the Company in its early stages of development.

- LGPS Central Internal Control Environment - The Company's auditors, Deloitte, performed an internal control assurance review covering the three months ending March 2020. This AAF 01/06 report provides clients with the assurance that the internal controls established at the Company are effective and have operated throughout the period of review. Having tested the controls, Deloitte were able to give the Company an unqualified opinion in the report.

Appendix 3

LGPS Central pool Risk Register - June 2020

Risk	Pre-Control February 2020	Post-Control February 2020	Pre-Control June 2020	Post-Control June 2020
Resources	HIGH	MEDIUM	HIGH	MEDIUM
Regulatory Environment	HIGH	MEDIUM	HIGH	MEDIUM
Political	HIGH	HIGH	HIGH	HIGH
Reputational	HIGH	MEDIUM	HIGH	MEDIUM
External & 3rd Party	HIGH	MEDIUM	HIGH	MEDIUM
Strategic	HIGH	HIGH	HIGH	HIGH
Investment	HIGH	MEDIUM	HIGH	MEDIUM
Financial & Operational	HIGH	MEDIUM	HIGH	MEDIUM
Covid 19 Impact	N/a	N/a	MEDIUM	LOW