

LGPS CENTRAL POOLING UPDATE

Introduction

1. This report continues the series of updates on progress towards delivering investment pooling. It summarises the main activity since the update presented in June 2021 and follows the presentation by LGPS Central (LGPSC) Ltd at the September 2021 meeting.

Recommendation

2. The Committee is asked to note the position as set out in the report.

LGPS Central Joint Committee

3. The next meeting of the LGPS Central Joint Committee will be held on Friday 14 January 2022. The meeting will take place virtually with an accompanying live broadcast.
4. The meeting date and in due course the Agenda papers, are publicised on the Fund's website and cross referenced by Partner Funds on their websites. Members of the public can submit written questions to the Joint Committee, and these will be responded to on the day or in writing subsequently should there be too many questions to address in the fifteen minutes allowed.
5. The Chair of the Pension Fund Committee is the Fund's representative on the Joint Committee and is the current Vice Chair of the Joint Committee. The Council acts as Clerk to the Joint Committee and that role is undertaken by the Pension Fund lawyer.

LGPS Central - Pooled Fund Development

6. Appendix 1 lists the fifteen pooled funds now launched by LGPSC and total assets invested therein at end September 2021. The table highlights those funds in which the Fund is invested. Performance of these funds is included in the regular reporting presented to Investment Sub-Committee.
7. Good progress is being made in delivering the three funds remaining to be launched in 2021-22 (Global Sustainable Equities, Target Return, and Direct Property). Item 12 on this Agenda presents the case for investment in the Global Sustainable Equity fund.
8. The procurement of the Direct Property pooled fund has been structured to enable Partner Funds to directly invest and to call off services for the management of legacy direct property portfolios. This will assist Partner Funds in identifying potential fee savings whilst still meeting target returns and avoiding stamp duty liability in transferring direct ownership. Under the usual governance arrangements any transfer of the Fund's direct properties would be subject to meeting a justified business case.



9. Once all the 2021-22 funds are launched the Central pool will have successfully established its core suite of pooled funds. Further product development will focus on private market and more targeted/niche products to meet Partner Fund requirements as well as activity to ensure existing products are meeting targets and remain current.

Cheshire Pension Fund asset transition

10. Table 1 below summarises the transition of Fund assets to LGPSC at September 2021. The table shows the Fund has transitioned some £1.35bn or 20% of total assets.

Table 1: CPF Assets transitioned	Current Holdings	% of Assets owned
	£m	%
Assets pooled with LGPS Central Ltd (* Denotes further commitments approved see para 11 below)		
Climate Multi Factor Fund	671	
Global Equity Active Multi Manager Fund	367	
Private Equity **	11	
Emerging Market Debt Fund	151	
Multi Asset Credit Fund	152	
Private Debt **	0	
Infrastructure Fund **	1	
Assets pooled	1,353	20%
LGIM passive holdings	2,264	33%
Legacy Portfolios		
Active equities	880	13%
Property	502	7%
Private Equity	281	4%
Hedge Funds	416	6%
Fixed Income	991	14%
	3,071	44%
Cash	202	3%
Total Assets	6,890	100%

11. The table does not take account of decisions already made to invest a further £719m to LGPSC pooled funds including: -
- £60m to Private Equity
 - £510m to Private Debt
 - £149m to Infrastructure.
12. Taking these into account, the Fund has invested/committed some 30% of assets to LGPSC.



13. Of the remaining assets held and shown in Table 1, the position regarding transition is as follows: -
- a) The LGIM holdings were secured via a collective procurement with six other partner funds. These offer diversification and inflation protection at significant fee efficiency. These holdings are not scheduled for transition. However, the allocation will be kept under review in line with the Fund's evolving investment strategy (as evidenced by the recent decision to move assets from LGIM into the pooled private debt fund).
 - b) The Fund's strategy includes a high alpha equity approach, delivered by Baillie Gifford. An equivalent pooled high alpha fund is not available. The Fund is exploring the options offered by the new pooled Global Sustainable Equity fund.
 - c) Residual fixed income holdings are expected to unwind over time as assets transition to the multi asset and emerging market debt pooled funds, subject to performance.
 - d) Absolute return holdings have been reduced and may unwind further at future investment strategy reviews with cash used to pump prime changes in the investment strategy as required.
 - e) Transfer of directly owned property incurs significant stamp duty costs which prevents cost effective pooling - an issue for all LGPS funds. (See also para 8 above regarding direct property).
 - f) Legacy investments in several close ended private equity funds will take many years to unwind. New allocations to private equity will increasingly flow to the LGPSC private equity funds.

Cheshire Pension Fund – fee savings from pooling

14. The Committee requested an update on the investment management fee savings the Fund has achieved in the light of pooling. Fee savings derive in several ways as described below:
- Level 1 Direct fee savings from the transfer of assets from legacy managers to LGPSC funds.
 - Level 2 Legacy managers reducing fee rates as market responds to downward pressure generated by pooling.
 - Level 3 Impact of asset allocation changes facilitated/accelerated by pooling.
15. Direct fee comparisons are complicated by the way LGPSC costs are shared between its owning partner funds (with a significant proportion shared equally or in proportion to assets owned) whereas established investment managers typically charge a fee expressed as a percentage of assets invested.



16. Officers have reviewed the fee position over the three years to March 2021 and this is summarised in Table 2 below for Level 1 and Level 2 savings.

Table 2: Fee savings	2018/19	2019/20	2020/21	Total
	£000	£000	£000	£000
Ongoing savings:				
Level 1: Direct Fee Savings (Net)*	514	-280	-329	- 95
Level 2: Market response	-51	-212	-267	- 530
Net costs / (savings)	463	- 492	- 596	- 625

* Figures include the Fund's share of ongoing LGPSC costs attributable to investment products. Cheshire's share of additional LGPSC running costs which are not attributable to investment products i.e. governance and product development, totalled £1.140m over the same 3 year period.

17. Members will know that there is a cost of moving assets, whether into different asset classes and/or to different managers. To date the Fund has incurred transition costs of £0.844m in moving assets into pooled funds. Hence in cumulative terms, savings to date have not exceeded one off transition costs. However over time the ongoing savings shown above will generate net overall savings for the Fund.
18. Attributing the impact of Level 3 savings linked to asset allocation changes which may have been accelerated or facilitated by pooling is less straight forward. In some cases, assets have been redeemed from legacy managers but not yet invested into pooled products. As an illustration, the Fund is forecasting fee savings of some £5.4m p.a. by redeeming two of its hedge fund holdings. Over time these moneys are expected to be invested into the LGPSC Infrastructure fund and will result in a net fee saving of £3.8m. However, the two events are not co-terminus given the lengthy lead time to invest in infrastructure – hence future fee costs will appear to rise from a potentially misleading base point.
19. Fee rates are an integral part of the assessment of the business case for new pooled products and will be kept under close review – always acknowledging that under/over performance of underlying investments will almost always dwarf fee savings.
20. Officers will continue to monitor the fee impacts of pooling and will present updates to Committee annually.



Appendix 1

LGPS Central Ltd: Pooled funds AUM end September 2021	Asset Class	Inception	AUM	CPF invested
Passive Funds			£m	£m
UK Passive Equity Fund	Equities	04-2018	1,169	-
Global (Ex UK) Passive Equity Fund	Equities	04-2018	2,745	-
Global Passive Equity Dividend Growth Factor Fund	Equities	Apr 2018	595	-
All World Passive Equity Climate Multi Factor Fund	Equities	Oct 2019	3,569	671
Global Multi Factor Equity Fund	Equities	Jan 2021	235	-
			8,313	671
Active Funds				
Global Equity Active Multi Manager Fund	Equities	Mar 2019	3,145	367
Emerging Markets Equity Active Multi Manager	Equities	Jul 2019	941	-
Global Investment Grade Corporate Bond Fund	Bonds	Jan 2020	1,672	-
Emerging Market Debt Fixed Income	Bonds	Dec 2020	660	151
Multi Asset Credit Fund	Fixed Income	Apr 2021	719	152
			7,137	670
Private Markets				
Private Equity Primary Partnership 2018	Private Equity	May 2019		11
Private Equity Co-Investment Partnership 2018	Private Equity	Apr 2019		
Private Equity 2021	Private Equity	Sept 2021		0
Private Debt	Fixed Income	Jun 2021		0
Infrastructure	Infrastructure	May 2021		1
				12
Total				1,353



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