



LOCAL PENSION BOARD– 18 JUNE 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

UPDATE ON PENSION FUND POOLING

Purpose

1. The purpose of this report is to update the Board on progress towards pooling of the Pension Fund.

Background

2. The Leicestershire Fund will be one of 9 schemes that pool pension assets within the LGPS Central Pension Pool.
3. Post pooling the Local Pension Committee will continue to set the Leicestershire Fund's strategic asset allocation, thereby deciding which types of investments the Fund would invest in.
4. LGPS Central will be responsible for implementing these asset allocation decisions, through the appointment of managers or direct investment management undertaken by LGPS Central.
5. Pooling will take several years to implement, due to then need to set-up sub-funds by LGPS central and then amalgamate the existing holdings for the 9 partner schemes.
6. The key actuarial valuation assumptions will continue to be agreed by the Committee, as will the Investment Strategy and Funding Strategy Statements.

LGPS Central Update

7. LGPS Central successfully went live on 1st April 2018, without any major issues. Three internally-managed pooled passive funds with a value of over £5bn, in which West Midlands Pension Fund invests, were launched on this date and are functioning as expected.
8. LGPS Central is also providing services to a number of Partner Funds in respect of the stewardship of assets belonging to those Partner Funds – for example private equity portfolios and externally-managed investment managers.
9. Staffing levels at LGPS Central continue to increase and are at levels that are suitable for current business, and preparing for the launch of new pooled fund products in the months ahead.

10. LGPS Central is midway through a search for the external investment managers that will be appointed to manage its first externally-managed pooled active fund, which will be for global equities. This fund is expected to be launched in the Autumn and Leicestershire Fund is likely to make an investment, utilising the assets currently managed within its two global equity portfolios.
11. It is expected that other manager searches, for externally-managed sub-funds, will be commencing shortly, with Emerging Market equities likely to be the next. Work is also on-going at LGPS Central to agree with Partner Funds their requirements within the fixed interest asset classes, amongst others.
12. As previously informed to the Board, Leicestershire's investments Manager has moved to LGPS Central and a decision has been taken not to replace this post on a like-for-like basis. The rationale behind this decision is that the requirement for such a deep level of investment knowledge would be less necessary in the future, as pooling itself will remove some of the work. As an example external investment managers will, in the future, be appointed and monitored by LGPS Central so these skills are no longer required by an employee of the Fund.
13. This change also provides the opportunity to consider where some of the Fund related tasks are undertaken. The main changes are to aligning the actuarial work with the Pension Administration section and the accounting work with the County Council's technical accounting team. This will support knowledge sharing and reduce some of the handovers that were taking place between teams.
14. In the short-term there is a reduction in the investment expertise at the Fund. This creates a challenge in how best to manage the assets in the period up to the point that LGPS Central has a pooled investment vehicle that the Fund can utilise. To ensure that issues arising are dealt with in a timely manner discussions have taken place with LGPS Central to provide advisory services in a number of areas to cover the period up to the point of the launch of their relevant sub-fund. The Fund will continue to benefit from the support of its Independent Investment Advisor and Hymens.
15. The Fund has a number of investments in closed-ended funds, whereby an investment manager is appointed to fulfil a specific purpose via a pooled fund which is set up to run for a specified period of time (although extension periods are possible). Essentially closed-ended funds make investments, take the necessary action to improve their value, sell them and return the proceeds to investors within this specified period of time. Typical examples of closed-ended funds are private equity, private debt and all of the investment that comprise the Fund's 'Opportunity Pool'.
16. Employing LGPS Central to provide oversight to the vast majority of the Fund's closed-ended fund investments is unlikely to be beneficial, as there is no natural ability to exit the investment in the event of issues arising. However, LGPS Central could add value in the event of there being a specific issue within an individual closed-ended fund, for example a key individuals within the investment process leaving. LGPS Central has indicated a willingness to assist when required. With this support and the Fund's existing investment advisors continuing to manage these investments locally is considered appropriate.

17. Foreign currency management is another area where local management is likely to be maintained for an extended period. Kames provide an active foreign currency hedge for the Fund, which is not a service currently offered by LGPS Central. The Millennium portfolio looks to add value through currency exposures, which isn't something the other Partner Funds have expressed an interest in.
18. For the Fund's investments where LGPS Central's advisory agreement is seen to be beneficial a formal agreement will be entered into between the Fund and LGPS Central. This will protect the Fund's interests over the period of time until the appropriate LGPS Central sub-fund is launched. Initial discussions between the two parties have taken place and investments such as active global and emerging market equities, pooled and direct property, emerging market debt and targeted return are likely to be suitable for this arrangement. LGPS Central will only be able to advise the Fund on potential courses of action, and will not act without the Fund's approval.

Recommendation

The Local Pension Board is asked to note the report.

Equality and Human Rights Implications

None.

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