



## **LOCAL PENSION COMMITTEE – 9 NOVEMBER 2018**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **LGPS CENTRAL UPDATE**

##### **Purpose of the Report**

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

##### **Background**

2. LGPS Central successfully went live on 1st April 2018, without any major issues.
3. The Leicestershire Fund will be one of 9 schemes that pool pension assets within the LGPS Central Pension Pool.
4. Pooling will take several years to implement, due to then need to set-up sub-funds by Central and then amalgamate the existing holdings for the 9 partner schemes.
5. Local management of investments will be required in the medium term for 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. These investments will be managed locally until the capital is repaid, due to the lack of a natural ability to exit the investment in the event of issues arising.
6. Foreign currency management is expected to be managed locally for an extended period. Kames Capital provide an active foreign currency hedge for the Fund, which is not a service currently offered by Central. The Millennium portfolio looks to add value through currency exposures, which is not something the other Partner Funds have expressed an interest in.

##### **LGPS Central Update**

###### **Global Equities Active Multi-Manager Fund**

7. The Fund currently employs two managers in this class of assets, Kempen and KBI, with a total of £340m of assets under management. Up to five other pension funds are expected to invest taking the estimated size of this sub-fund to £2.5bn.
8. The Fund will benefit from cost savings. However due to the fixed fee currently paid to KBI these savings will be relatively modest. If the Fund chose to change managers independently the fees paid would be expected to increase. More

significant cost savings are expected from future fund launches, as the Fund will benefit from Central's scale.

9. The Global Equity Fund has received Financial Conduct Authority (FCA) approval and is expected to launch at the end of November. Planning for the transition of assets from individual funds is taking place. However, due to the varied approval dates and approaches it is expected that transfers will not take place until the new-year.

#### Private Equity Fund

10. The Fund has a £160 million allocation to Private Equity, this is managed by Adams Street Partners (ASP). This is primarily through fund of funds arrangements, i.e. ASP select funds to invest in rather than identifying specific companies themselves.
11. The investments are in closed ended funds, which mean that money will be returned to the Fund and cannot be invested indefinitely. This requires the Fund to continually reinvest to maintain its target allocation. To maintain the Fund's target allocation it is estimated that £10 million should be invested in the current financial year.
12. An initial cost saving is expected, but will not be confirmed until the investment has been made with individual private equity managers. A further option is available to the Fund, which we have not taken up at this time. LGPS Central are offering co-investment opportunities. Co-investment is where an investment is made in a specific company alongside a private equity fund manager, who lead on the due diligence. These investments have a higher risk profile, but also the potential for superior returns at lower cost.
13. The Private Equity Fund is awaiting FCA approval, but is expected to launch this calendar year. Before the launch a Shareholder Resolution will be issued by LGPS Central to obtain, from partner funds, the consent for the approval of the Directors of the alternatives platform subsidiaries, as per the governance arrangements. This is seen as a purely administrative matter.

#### Global Emerging Markets Fund

14. The next LGPS Central launch is also of interest to the Fund. Currently the Fund has £180m of actively managed investments in emerging market equities. This is managed by Delaware Investments (part of Macquarie Group).
15. LGPS Central are at the early stages of the procurement process to appoint managers with a launch targeted next year.

#### Other Matters

16. LGPS Central are currently undertaking a recruitment exercise for a Chief Executive, following the resignation of the incumbent. The selection of a candidate will be led by the non-executive directors with the aim of making an appointment by the end of the year. The final candidate will meet the Pension Committee Chairs and Vice chairs for final confirmation in line with the Shareholders Agreement. It is also likely that the final candidate will be required to meet the FCA.

17. LGPS Central has launched a new website (<https://www.lgpscentral.co.uk/>). At the moment the site is primarily for general information about the company, although it does include a section on Responsible Investment activity. Member of the Committee have shown an interest in this area and the latest Quarterly Stewardship Report, from the site, is attached for convenience. Note the activity described is on behalf of the partner funds whose investments LGPS Central are managing, this does not currently include the Leicestershire Fund.

### **Recommendation**

18. It is recommended that the Local Pension Committee notes the report.

### **Equality and Human Rights Implications**

19. None.

### **Appendix**

LGPS Central Quarterly Stewardship Report 2018

### **Background Papers**

Presentation to the Local Pension Committee – 10 November 2017 - Impact of investment pooling onto the role of the Local Pension Committee.

<http://politics.leics.gov.uk/documents/s132964/Impact%20of%20investment%20pooling%20onto%20role%20of%20Local%20Pension%20Committee%20-%20Presentation.pdf>

Report to the Local Pension Committee – 19 January 2018 – Appendix A, Portfolio Structure of the Fund

<http://cexmodgov1/documents/s134829/Appendix%20A.pdf>

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