



LOCAL PENSION COMMITTEE – 15 FEBRUARY 2019

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 the 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.

LGPS Central Update

Global Equities Active Multi-Manager Fund

6. The Fund currently employs two managers in this class of assets, Kempen and KBI, with a total of £316m of assets under management. Four other pension funds have committed to invest from the launch of Central's fund taking the estimated size of this sub-fund to £2.1bn.
7. Activity to transition the assets from individual funds to the three new managers is taking place and will be completed in February. Macquarie have been appointed to manage the transition and are co-ordinating activity between the different investment managers and pension funds. Despite market volatility no significant issues have been identified at this stage.

Private Equity Fund

8. The Fund has a £201 million allocation to Private Equity, this is managed by Adams Street Partners (ASP). This is primarily through fund of fund arrangements, i.e. ASP select funds to invest in rather than identifying specific companies themselves.
9. The investments are in closed ended funds, which mean that money will be returned to the Fund and is not 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.
10. An initial cost saving is expected, but will not be confirmed until the investment has been made with individual private equity managers. LGPS Central are offering to explore 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. The Fund has not taken up the co-investment option at this time, but it is worthy of consideration in the future.
11. The Private Equity Fund's launch was delayed due to FCA and other approvals, this has now been resolved and the fund launched at the end of January. Four other pension funds are investing alongside Leicestershire bringing the total commitment to £257m, in the 2018 vintage.
12. The commitments will be called by Central over the next six months and invested with a variety of managers. Central are likely to open up a 2019 vintage for investment later this year.

Global Emerging Markets Fund

13. Currently the Fund has £169m of actively managed investments in emerging market equities. This is managed by Delaware Investments (part of Macquarie Group). LGPS Central have completed the procurement process and have appointed three managers to run the Global Emerging Markets Fund. The managers will normally be responsible for an equal share of the total assets this is provisionally expected to be £1.5bn.
14. The managers are expected to be "stock pickers" rather than having a defined style. Further information is expected to be released during February and a transition date for investors expected in the summer.

Infrastructure

15. The Fund has a £215 million allocation to Infrastructure; this is managed by IFM, KKR and JP Morgan. The KKR investment is closed ended with capital not expected to be fully returned until 2027. The other funds are open ended so could potentially be redeemed or transferred to Central's management.
16. Central are progressing development of an Infrastructure Fund for launch in 2019. Similarly to the Private Equity Fund there are expected to be opportunities to just invest with infrastructure managers and/or for co-investment in specific schemes.

Factor Based Investing

17. The traditional approach to passive investing has been to use the market capitalisation (size) of companies within an index (e.g. FTSE 100) to determine the relative level of investment. Over recent years a range of alternative approaches have been developed often described as ‘factor-based investing’. Factor-based investing is a rules-based approach where individual investments are selected based on factors associated with higher returns, for example stability of earnings or disparity between book value and share price. These factors have been identified by academic research as being able to identify stocks should deliver strong risk-adjusted returns over the long-term.
18. The fund currently holds £346m of RAFI funds that use factors to determine where the investments should be made.
19. Central are currently developing a factor based fund that could act as an alternative investment to the RAFI holding. Central also offer a Dividend Aristocrats fund, where only companies with a strong historic track record of dividend growth are invested in.

Other Matters

20. LGPS Central has identified a new Chief Executive, subject to ratification by shareholders. The recruitment process was led by the Nominations committee of LGPS Central’s Board, which consists of three non-executive directors.
21. The recruitment process targeted individuals that not only had the previous experience of a FCA regulated asset management business, but also would appreciate the public sector ethos involved in pooling.
22. During January the Fund signed three advisory and execution mandates with LGPS Central. Under the mandates LGPS Central will undertake the monitoring of the investment managers and advise on actions required. The fund maintains responsibility for taking any decisions relating to the investments. The mandates chosen are for Emerging Markets Debt, Property and Targeted Return. The rationale for selecting these mandates if the extended period of time before and alternative LGPS Central offer is expected to be ready.
23. The Property mandate is expected to require a greater degree of oversight due to expected capital returns over the next few years. A decision is required on where to re-invest this money, hence aligning as closely as possible to LGPS Central’s future plans will be advantageous.

Recommendation

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

Equality and Human Rights Implications

25. None.

Appendix

LGPS Central Quarterly Stewardship Report 2018

Background Papers

None

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