



INVESTMENT SUBCOMMITTEE – 3RD APRIL 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**UPDATE ON THE LAUNCH OF LGPS CENTRAL'S GLOBAL EMERGING
MARKETS PRODUCT**

Purpose

1. The purpose of this report is to inform the Committee of recent progress by LGPS Central in developing a Global Emerging Markets Equity sub-fund that the Leicestershire Pension Fund (the Fund) could invest in.

Background

2. The Leicestershire Fund is one of 9 schemes that will pool pension assets within the LGPS Central Pension Pool. 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.
3. The only direct investment that the Fund has made to date is in Central's Global Equity sub-fund, which was launched in February 2019.

Global Emerging Markets

4. LGPS Central has selected three managers to invest the assets for the sub-fund. The necessary agreements and regulatory approval to launch the sub-fund are currently being progressed, with a launch expected in April. The transition of funds and commencement of trading is not expected until the summer.
5. LGPS Central has developed the sub-fund in consultation with the partners who are interested in the product. Up to four other pension funds are considering investing, which would take the estimated size of this sub-fund to over £1.0bn. LGPS Central will attend the meeting of the sub-committee to explain the proposal and the process to deliver the sub-fund.
6. The Fund currently employs one active manager for Emerging Markets, Delaware, who have £170m of assets under management. The Fund also has a passive investment of £76m. For the initial transition it is envisaged that only the assets allocated to Delaware will be considered with the passive investment being considered for transfer at a future point.

7. Central has appointed three managers who will enable a diversification of both risk and the source of returns. The three managers selected are BMO Global Asset Management, UBS Asset Management Limited and Vontobel Asset Management. All of the managers are classified as stock-pickers, so they do not have a specific style bias, but they will select companies using different investment philosophies/processes. As a result there is very little overlap between the managers' portfolios.
8. The Fund's allocation to active Emerging Market management was maintained at 4% in the latest annual strategy review.
9. Under normal circumstances the three managers will have an equal split of assets, although Central may adjust the split by up to 7.5% (10% including drift due to performance). This additional management by Central is expected to be used should performance concerns arise rather than for performance enhancement.
10. The Fund is expected to benefit from cost savings, the level will depend upon the total amount of assets invested.
11. Investment Consultants Hymans Robertson have reviewed the information available relating to the sub-fund. Their appraisal is included elsewhere on the agenda. They are broadly supportive of the investing, but have provided several points for consideration.
12. The considerations relate to reviewing the due diligence performed by LGPS Central and a range of factors that will naturally develop as the product proceeds towards launch (transition approach and operation of the sub-fund).
13. Central are looking for initial commitments to the sub-fund. This will allow analysis on the transition to be performed to decide the approach. The initial commitments will also allow the fees of the sub-fund to be estimated. Only after these factors are known, alongside regulatory approval, will firm commitments to invest be required.
14. Should the Investment Subcommittee support the approach and the launch of the sub-fund continue to proceed satisfactorily, the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, will act using his delegated powers.

Supplementary Information Informing the potential investment

15. A briefing note provided by Hymans Robertson and LGPS Central's draft business plan, accompanied by a presentation, which are all of a sensitive nature, are included as items elsewhere on the agenda.

Recommendations

16. It is recommended:

- a. That progress in relation to LGPS Central's development of an emerging Markets sub-fund be noted;
- b. That subject to the development of the sub-fund proceeding satisfactorily, the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be requested to progress the Fund's initial investment in LGPS Central's Emerging Market's Equity sub-fund, as detailed in Paragraph six of the report, using his delegated powers;
- c. That further progress updates concerning the investment be considered by the Local Pension Committee.

Equality and Human Rights Implications

17. None.

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