



LOCAL PENSION COMMITTEE – 5 JULY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL UPDATE – PENSION FUND POOLING

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 has been operating since 1st April 2018, providing asset management services to the Leicestershire Pension Fund (the Fund) and eight other schemes within the LGPS Central Pension Pool.
3. The Fund transitioned its first assets to Central, as part of the Global Equity Active Multi-Manager Fund, at the end of February. The Fund contributed approximately 15% of the overall £2.1 billion assets managed in the Global Equity fund.
4. Pooling will take several years to fully implement, due to the need to set-up sub-funds by Central and then amalgamate the existing holdings for the 9 partner schemes. The Fund has entered into 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 mandates are for Emerging Markets Debt, Property and Targeted Return. The rationale for selecting these mandates is the extended period of time before an alternative LGPS Central offer is expected to be ready.
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 transitioned £331m of assets to this product. The transition completed successfully, with the product launching with the new managers on the 12th March 2019. The transition was completed at a cost slightly below the initial estimate and no significant issues were encountered. The transition had independent oversight

by a specialist firm who were generally complimentary of the process, with a handful of issues arising the main one being clarity of performance reporting. These matters will be taken into account in future transitions.

Global Emerging Markets Fund

7. At its meeting on the 3 April 2019 the Investment Subcommittee (ISC) was asked to consider the Fund's investment in LGPS Central's Global Emerging Markets Fund. At the time of writing the Fund had £182m of actively managed emerging market equities.
8. Briefing notes were received from the Fund's investment advisor, Hymans Robertson, to support the decision. LGPS Central attended the meeting and provided a presentation covering the aims of the product, the manager selection approach, cost benefits, Responsible Investment considerations and the transition plan.
9. Following the presentation the ISC decided that, subject to the development of the product proceeding satisfactorily, the Fund should progress with an investment in LGPS Central's Emerging Markets Fund. This would maintain the Fund's strategic asset weighting to active emerging market management at 4%.
10. Since the ISC meeting an experienced emerging markets transition manager has been appointed. This has allowed a transition plan to be put in place, key features are:
 - a. Four funds committed to the product, combining £700m of assets.
 - b. Three managers will be employed to manage the assets.
 - c. A split transition provides the lowest cost option, with Leicestershire in the first group scheduled.
 - d. Fees at launch will be significantly lower than those currently paid, further reductions will be possible if another partner fund invests in the product.
 - e. Transition costs are not fixed, but estimated to provide a 5 year payback.
 - f. The time from transfer of legacy portfolios to the new managers taking over is expected to be 24 days.
11. The Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, has used his delegated powers to commit the Fund to invest in LGPS Central's Emerging Market's Equity Fund

Private Equity Fund

12. 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. The Fund has also allocated £10m to LGPS Central who will also engage managers to make investments on their behalf.
13. LGPS Central started making commitments to investment in March and have allocated 75% of their funding, although the only a small proportion of the cash has actually been called at this stage.

14. Central are expected to launch another private equity vintage this year. It is likely that the Fund will need to invest to maintain the target allocation.

Infrastructure

15. The Fund has a £213 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 Q4 2019. The structure of the product is still being developed; however, initial indications are that it will be a suitable fit for the Fund.

Investment Advisory Committee

17. For the Private Equity and Infrastructure product LGPS Central propose to create Investment Advisory Committees. Committees of this type are standard industry practice and allow efficient management of the portfolio. Examples of the primary functions of the committee include:

- Advise on matters where a conflict of interest may arise, for example between management of the product and advisory mandates
- Consider any changes to investment guidelines that may be proposed
- Consider key person replacement issues
- Approve any proposed changes to the product's investment strategy
- Provide oversight of redemption process to ensure fairness

18. The Committee would not be a decision making body for individual investments, this responsibility remains with LGPS Central. Voting is proposed to consider the number of partners and assets under management.

19. The committees would be attended by officers representing each of the partner funds invested in the product.

Factor Based Investing

20. The Fund currently holds £409m of RAFI funds that use factors (e.g. dividend yield) to determine where the investments should be made, rather than being based upon market capitalisation.

21. Central are currently developing a Global Factor based fund and have two existing products, a Dividend Growth fund and a Global Climate Change Equity fund. One or more of these products could act as an alternative investment to the RAFI holding. Conversations are continuing to establish the best approach for the Fund.

Targeted Return

22. The Fund currently holds £531m of Targeted Return products with Ruffer, Pictet and Aspect.

23. Central are at a very early stage of developing a product, this will need to take into account the concerns that have been raised over the last year regarding the performance of this asset class.

Global Multi Asset Credit and Emerging Market Debt

24. The Fund has a small investment (£27m) in Multi-Asset Credit managed by JP Morgan and a more significant investment in Emerging Market Debt (£111m), through Ashmore. The recent strategy review confirmed the Fund's commitment to Emerging Market Debt and recommended an increase in the Multi-Asset Credit allocation, by 2% of the Fund's assets, using a reduction in the Targeted Return allocation.
25. Central are collating partner funds requirements at the moment to develop proposals for two separate products.

MHCLG Consultation on asset pooling

26. In February the Committee received a paper outlining the Ministry of Housing, Communities and Local Government consultation on draft statutory guidance on asset pooling.
27. The draft guidance has received public criticism, particularly from some of the pool companies. Pooling can and has been approached in a variety of ways, so it is not surprising that new guidance would receive a mixed response. The main issues raised were the approach to the consultation and regarding the proposed requirement for each pool to establish a Financial Conduct Authority (FCA) authorised company. LGPS Central is already FCA authorised.
28. The Ministry has not yet responded, but it is unlikely that the guidance will be implemented unchanged.

Recommendation

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

Equality and Human Rights Implications

30. None.

Background Papers

None

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