



**LOCAL PENSION BOARD – 16 SEPTEMBER 2019**  
**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**  
**GOVERNANCE OF LGPS CENTRAL**

**Purpose of the Report**

1. The purpose of this report is to provide the Board with information regarding the governance arrangements of LGPS Central.

**Background**

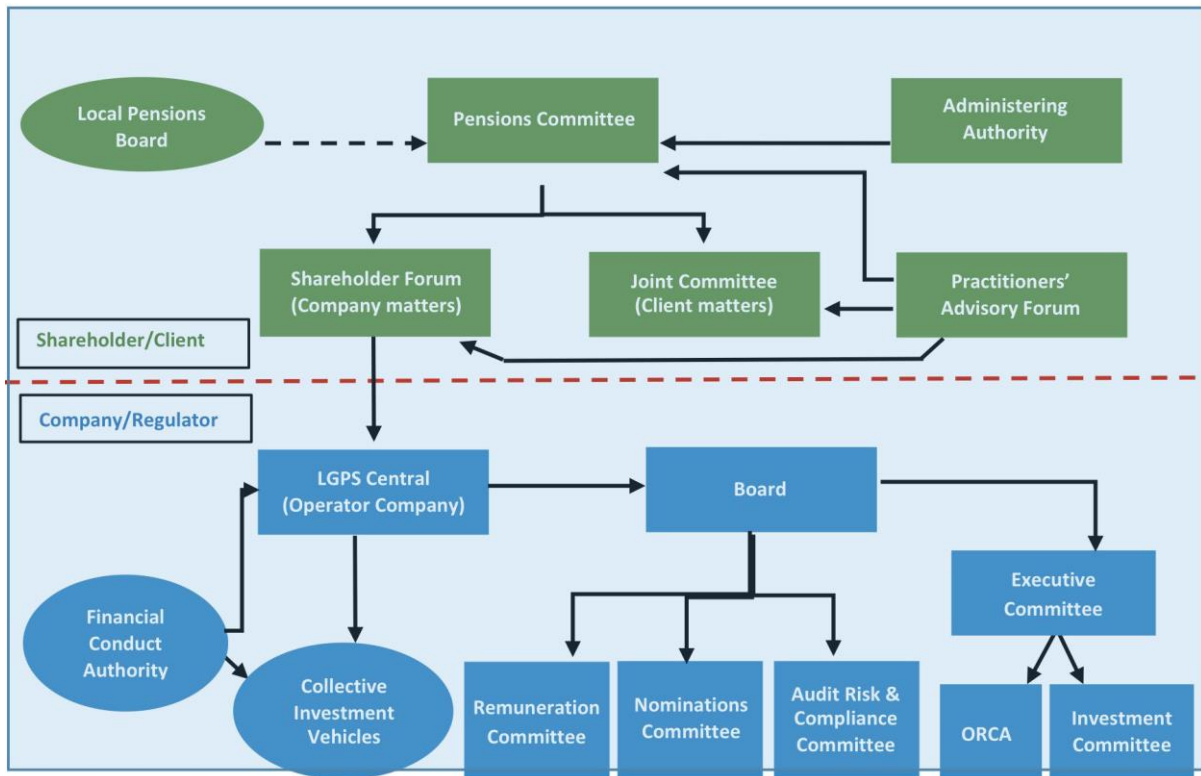
2. Government instigated 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets. Administering authorities formed their own groups and eight asset pools were formed, which are now all operational. The scale of each pool gives significant buying power in the investment market, that would not normally be accessible to funds, allowing forecast savings of up to £2 billion across all LGPS by 2033.

**LGPS Central Limited**

3. LGPS Central ("Central") is one of the eight newly formed pools of which comprises Leicestershire, Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, Worcestershire, West Midlands and the West Midlands Integrated Transport Pension Fund's. Central is a private company limited by shares that is jointly owned by the eight administering authorities that formed the pool, with equal voting rights. The pool will manage and invest over £40 billion of investments for the eight Councils to reduce costs, improve investment returns and widen the range of available asset classes for investment, to the benefit of pensioners, employees and employers.
4. The Leicestershire Pension Fund (Fund) is a stakeholder from two different perspectives:-
  - a co-owner of the company (shareholder) and;
  - as a recipient of investment services.

These interests are managed through the Shareholders Forum and the Joint Committee which are explained below.

Fig 1. Organisational structure and governance of 'Central' described throughout this paper.



### LGPS Central Board

5. Central is managed by a Board of Directors that are responsible for the day-to-day management and operation of the pool. It is currently made up of three non-executive directors (NEDs), the Chief Executive Officer (CEO) and the deputy CEO. The duties of the three non-executive directors is to provide independent oversight and challenge to the executive directors. The non-executive directors have the same legal duties and responsibilities as the executive counterparts. It is appreciated that NEDs will not have the same continuous attention to the business.
6. The Board is supported by an executive team of three which currently comprises, the Chief Investment Officer (CIO), General Counsel and the Risk and Compliance Officer.
7. Central, like many public companies has a remuneration committee, a nominations committee and an audit risk and compliance committee. These are chaired by the three NEDs.

### Collective Investment Vehicles

8. Collection Investment Vehicles are the legal arrangements into which any, or all, of the eight local authority pension funds can invest their fund. Central

currently have several collective investment vehicles active, these are approved by the Financial Conduct Authority (FCA) but not regulated by the FCA. The Manager, however the Central pool itself is regulated by the FCA.

9. All but one of the current collective investment vehicles are within a wrapper known as the Authorised Contractual Scheme (ACS). Where the underlying asset cannot be placed into an ACS, an alternative approach is used. For example, where assets are illiquid such as those within the Private Equity offering, Central have formed a Scottish Limited Partnership.
10. The Leicestershire Pension Fund is currently invested in the Global Equity fund, Global Emerging Markets fund and Private Equity fund.

### **Shareholder Forum**

11. The supervisory body of Central is the Shareholders' Forum, which focuses on shareholder issues. The shareholder forum includes representatives from each of the eight pension funds. The members are elected representatives, typically the Chairs of the Local Pension Committee.

#### *Shareholder structure:*

- 8 shareholders, holds the pension funds of Leicestershire CC, Derbyshire CC, Staffordshire CC, West Midlands Pension Fund, Cheshire CC, Nottinghamshire CC, Shropshire CC and Worcester CC.
  - Use of pension fund money to buy shares
  - Equal voting rights through 'A' shares
  - 'B' and 'C' shares (non-voting) and loans used to provide 'regulatory capital'
12. Collective discussions take place at Shareholders' Forum. The Shareholders Forum meets at least twice a year to agree certain reserved matters; this provides a greater degree of control than for most private companies. Their powers as shareholders are set out in a Shareholder Agreement and include:
    - Amending or adopting new strategic plans
    - Admitting new members to the Pool
    - Appointment and removal of Directors
    - Approve accounts and appoint auditors
    - Approving capital expenditure over £5M

13. The Shareholders' forum normally precedes general meetings of the company, this allows discussion in advance of decisions being made at the meeting.

### **Joint Committee**

14. The Joint Committee, deals with the 'Investor' functions related to Fund's investment in the collective investment vehicles. The Joint Committee meets twice a year. It is comprised of eight members, representing each of the partner funds, these representatives may be different to those on the Shareholders' Forum, dependent on the authority. This is a public forum for Councils within the pool to receive oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues.
15. The Joint Committee provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The Joint Committee does not have delegated authority to make binding decisions on behalf of the participating councils.

### **Local Role**

16. Each administering authority retain its Pensions Committee which continue to decide how the assets for that fund are to be invested in line with the administering authority's agreed investment strategy. The Leicestershire Local Pension Committee continues to set the strategy of the Fund at its strategy meeting in January.
17. LGPS Central also provide regular performance reports and, periodically, attend meetings with individual pension fund committees.

### **Practitioners' Advisory Forum**

18. To allow LGPS Central access to the authorities in a more frequent and informal setting, for example to develop investment products, a Practitioners' Advisory Forum was created. This is a working group of officers from each pension fund that meet on a regular basis. The forum also provides support to members of the Shareholders' Forum, Joint Committee and local Pension Committees.

The PAF consists of the following working groups:

- Administrative group
- Audit group
- Investment working group (IWG)
- Client Oversight & Governance Group (COGG)
- Finance working group
- Responsible Investment Working group

### **Recommendation**

The Board is asked to note this report.

### **Officers to Contact**

Declan Keegan  
Assistant Director of Strategic Finance and Property  
Telephone: (0116) 305 6199  
Email: [Declan.Keegan@leics.gov.uk](mailto:Declan.Keegan@leics.gov.uk)

Bhulesh Kachra  
Senior Finance Analyst, Corporate Resources  
Telephone: (0116) 305 1449  
Email: [Bhulesh.Kachra@leics.gov.uk](mailto:Bhulesh.Kachra@leics.gov.uk)

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