



LOCAL PENSION BOARD - 17 APRIL 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL UPDATE

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the following with respect to LGPS Central:
 - The recent Joint Committee's meetings held in July 2023 and February 2024;
 - Outcome from the AGM held in September 2023 and CEO appointment;
 - The Fund's pooling progress with respect to investing in LGPS Central investment products;
 - The Fund's listed equity exposure to the United Kingdom.

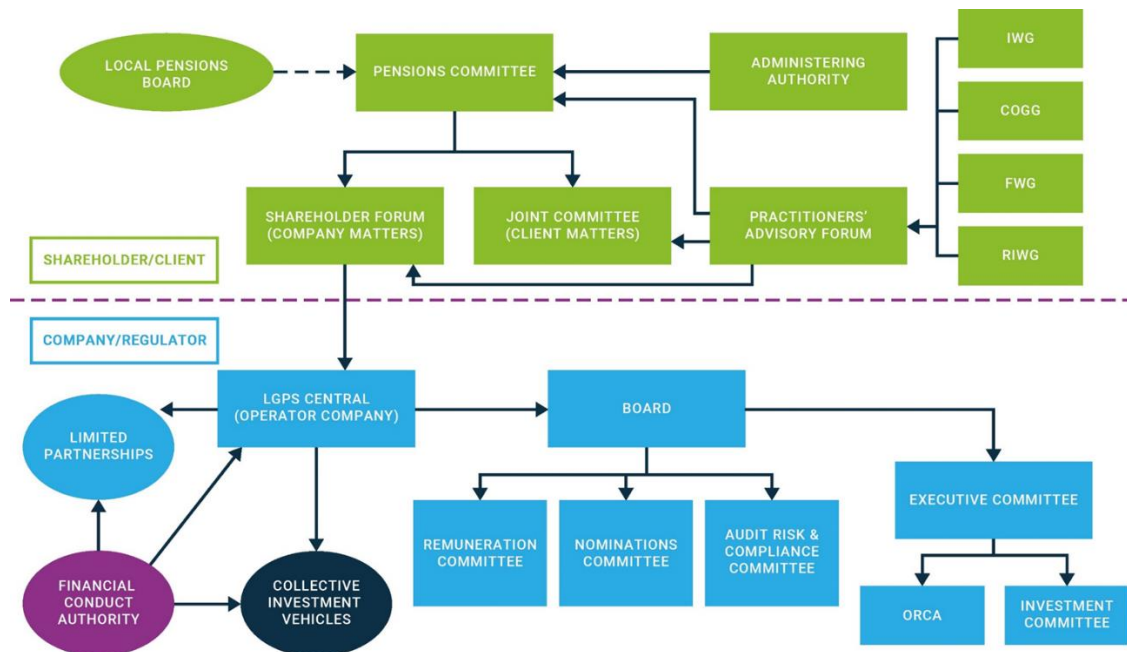
Policy Framework and Previous Decisions

2. On 15 November 2016 the Local Pension Committee approved the proposed governance structure for the investment pool that was established to manage the assets of eight Midlands-based Local Government Pension Funds. This was subsequently approved by the meeting of the County Council on 22 March 2017.
3. It was agreed that the Chairman of the Local Pension Committee should act as the Fund's representative on the Shareholders' Forum and Joint Committee.

Background

4. The Government instigated the '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.

5. LGPS Central has been in operation since 1 April 2018. The Leicestershire County Council Pension Fund (Fund) is a stakeholder from two different perspectives:
- a co-owner of the company (shareholder); and
 - a recipient of investment services.
6. These interests are managed through the Shareholders' Forum and the Joint Committee as well as Leicestershire Pension Fund's Funding Strategy Statement, Investment Statement Strategy and Conflict of Interest Policy. The figure below illustrates the relationships between the various bodies.



7. The Joint Committee (JC) deals with the 'Investor' functions related to Fund's investment in the collective investment vehicles. The JC 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, who are dependent on the authority.
8. The JC is a public forum for Councils within the pool which had oversight of the delivery of pool objectives, delivery of client service, delivery against the LGPS Central business case and to deal with common investor issues. It also provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The JC does not have delegated authority to make binding decisions on behalf of the participating councils.
9. The supervisory body of Central is the Shareholders' Forum, which focuses on shareholder issues. The Shareholder's Forum includes representatives from each of the eight pension funds. The members are usually elected representatives, typically the Chairs of the Local Pension Committee, but this is at the discretion of the individual funds.

10. The Shareholders Forum meets at least twice a year to agree certain reserved matters and 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 £5million
11. The Shareholders' Forum normally precedes general meetings of the company, allowing discussions to take place in advance of decisions being made at the meeting.
12. As at the end of December 2023 the total assets under management at LGPS Central was £21.6bn over 24 investment products covering passive and active equity, private equity, fixed income, property, infrastructure and private credit.

LGPS Joint Committee meetings

13. At the Joint Committee on 21st July 2023 there were a number of reports and updates noted which are listed below:
 - Scheme Advisory Board: Update including the code of transparency, the Boycott, Divestment and Sanction bill, confirmation from Government that there would be no new duties on funds until 2024 at the earliest with regards to climate reporting, and the next steps on investment consultation.
 - Practitioners Advisory Forum Update: No recommendations had arisen from the audit which was positive, noting Cheshire West and Chester Council was leading on the annual investment audit. That the annual cost saving review continued, and the cost sharing model.
 - Pool Risk Register: It was noted it was last updated pre consultation thus did not reflect developments.
 - LGPS Central Update: John Burns, interim CEO presented on the key focus areas for 2023/24 with a view on Central's development journey since 2018.
14. At the meeting on 2 February 2024 the Chairman of the Leicestershire Local Pension Committee was appointed as Chair to the LGPS Central Joint Committee. At the meeting there were a number of reports and updates noted which are listed below:
 - Public questions on issues of the Next Steps on LGPS Investments consultation, responsible investment and climate change.

- A review of the Joint Committee Terms of Reference which set out a protocol for dealing with public questions, and reinstated partner funds shared objectives into the terms of reference was approved.
- A Practitioners Advisory Forum Update: which noted LGPS Central's business planning processes, submission of annual returns to the Department for Levelling Up, Housing and Communities, a review of the cost sharing principles, fund launches, a review of stewardship themes, the moving pooling forward exercise and the development of a future vision for pooling.
- The Pool Risk Register Review which updated risks associated with the outcome of the consultation on the future of LGPS investments and pooling, resourcing across the Pool, and other regulatory change.
- A presentation from the Internal Audit Working Group.
- A performance and responsible investment update from LGPS Central.

Outcomes from September 2024 AGM and CEO appointment

15. LGPS Central held an Annual General Meeting on 26 September 2023 at the meeting shareholders received a report from the Chair, a Non-Executive Director and the Interim Chief Executive Officer. There were a number of items for shareholder approval which were agreed by shareholders as follows:
 - Adoption of Company Report and Accounts for the year ended 31 March 2023
 - Re-appointment of Deloitte LLP as external auditor of the Company
 - Authorisation of the Board to agree the external Auditor's Remuneration
 - Approval to extend the term of office of the current Board Chair by 18 months
 - Re-election of Joanne Segars, Susan Martin, Ian Armfield, Ciaran Barr, Belinda Moore and John Burns to the Board.
16. Following the departure of LGPS Central's CEO in May 2023 John Burns, Deputy CEO has been acting as Interim CEO while the LGPS Central Board recruited to the position. Following a recruitment process Central have now announced Mr. Richard Law-Deeks as the new CEO. The appointment will start in early summer, subject to regulatory approval.
17. Mr. Law-Deeks is currently chief executive of the Royal Mail Pension Plan and spent the early part of his career working in local government on pensions and wider finance roles.

The Fund's Pooling progress

18. The Fund views LGPS Central as the first port of call when initiating a new investment or top up to an existing asset class. Where appropriate, advice is sought from the Fund's investment advisor, Hymans Robertson in advance of a new investment or top up.

19. As at 31 December 2023 the Fund was valued at £6.09bn. The Legal and General (LGIM) passive equity investments, which were collectively procured prior to the commencement of pooling and which attract a low management fee were valued at £983m or 16% of the total Fund's value. The Fund's largest manager in terms of assets under management is LGPS Central, the total value as at 31 December was £2.3bn or 38% of the total Fund.
20. Taking both the LGIM and Central investments together, the total value of pooled investments is £3.27bn or 54% of total Fund assets.
21. The Fund has plans to invest with Central and this is illustrated by the value of investment commitments made to LGPS Central products that are yet to be 'called'. As at the time of writing these uncalled commitments are valued at £385m or 6% of total fund assets (this is in addition to the 38% invested directly with LGPS Central as described earlier). These uncalled commitments span a number of investment products including, private credit, private equity, direct property and infrastructure.
22. In addition, there a number of planned investments to existing LGPS Central investment products through 2024 which will also increase the proportion of pooled investments but if invested into a Central product would take a number of years to fully invest.

The Fund's listed equity UK exposure

23. The Fund's UK listed equity exposure as at 31 December 2023 is £231m. Taken as a percentage of listed equity this is around 9.3%. The 9.3% weighting reflects the Fund's overweight exposure to the UK which, depending on the index used for comparison, the UK represents around 3.4% of worldwide equity indices (MSCI All Country World Index, February 2024). The table below illustrates the actual UK exposure split by listed equity fund for the Leicestershire County Council Pension Fund.

	31 December 2024 % AUM	AUM £m
LGIM		
• UK Equity Index Fund	100%	125
• Low Carbon Transition Fund	3.56%	7
• All World Equity Fund	3.78%	24
LGPS Central		
• Global Equity Fund	5.68%	33
• Climate Multi Factor Fund	5.46%	42

24. The Fund will look to fully capture its exposure to the UK within other asset classes such as private equity and infrastructure as well as any appropriate classification for Levelling Up themes. The Fund will report as required in line with government guidance.

Recommendation

25. It is recommended that the Board notes the contents of this report.

Equality Implications

26. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund’s approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

27. There are no direct implications arising from the recommendations in this report.

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