



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 19 OCTOBER 2022

Report of the Director - Finance and ICT

Local Government Pension Scheme Investment Pooling

1. Purpose

To update the Committee on matters in respect of Local Government Pension Scheme (LGPS) investment pooling.

2. Information and Analysis

2.1 Background

At a meeting of Council in February 2017, it was agreed that Derbyshire County Council would enter into an Inter-Authority agreement with Cheshire West and Chester Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016; to be overseen by a Joint Committee established under s102 of the Local Government Act 1972 and a Shareholders' Forum made up of representatives from all the Shareholding Councils.

LGPS Central Limited (LGPSC/the company) has been established to manage investments on behalf of the pool of the eight LGPS funds across the Midlands, administered by the authorities listed above. These eight LGPS funds are referred to in this report as the Partner Funds.

2.2 Shareholders' Forum September 2022

Peter Handford, the Director of Finance & ICT, represented Derbyshire Pension Fund (the Fund) at the Shareholders' Forum (the Forum) held on 27 September 2022 ahead of the LGPSC AGM held later that day, to allow the

shareholder representatives (shareholders) to discuss the forthcoming company resolutions. Rachel Brothwood, Executive Director of Pensions at West Midlands Pension Fund, replaced Peter Handford as the Chair of the Forum under the usual annual rotation between Partner Funds.

Following discussions between the shareholders, it was noted that all of the resolutions at the AGM would receive unanimous support. The process for providing feedback to LGPSC's Remuneration Committee on the performance of the company's Executive Directors, a development that was agreed during the approval of the Executive Director Remuneration & Benefit Policy in April 2022, was also discussed.

2.3 LGPSC AGM September 2022

At the LGPSC AGM on 27 September 2022, Joanne Segars, the Chair of the LGPSC Board, provided an update on the company's key themes: Fund Performance; Recruitment and Retention; Business Maturity; and The Future. An update was also provided on the recruitment of two Non-Executive Directors (NEDs) and on the governance arrangements of the company.

The Chairs of LGPSC's Audit, Risk and Compliance Committee, its Nomination Committee; and its Remuneration Committee also provided shareholders with updates on the work of their committees. Matters highlighted included:

- The successful completion of the AAF 01/20 report (an assurance report on the internal controls of the company) for the period from 1 Jan 2021 to 31 December 2021
- Annual Board effectiveness review
- NED succession planning and recruitment processes
- Annual review of Chair and NED 'Fit and Proper Assessments'
- Development of the Remuneration and Benefits Frameworks and Policies including assessment criteria

Mike Weston, the Chief Executive Officer of LGPSC, updated shareholders on progress against the company's six focus areas for 2022-33 which are:

- Effective management of existing assets
- Transitioning new assets into the Pool
- Increasing the effectiveness of the company's Partner Fund relationships
- Recruiting, motivating and retaining the 'One Central' team
- Extending, enhancing and embedding RI&E (Responsible Investment & Engagement) with a particular focus on Climate
- Continued enhancement of operational resilience

The Deputy Chief Executive Officer of LGPSC, John Burns, provided an update on the company's financial position and a review of the company's balance sheet, reporting that expenditure was being managed within the budget agreed by shareholders and that the level of regulatory capital currently held continues to be sufficient.

Eight resolutions were presented to shareholders for approval at the LGPSC Annual General Meeting:

- **22/13:** Adoption of the Company Report and Accounts for the year ended 31 March 2022
- **22/14:** Approval of the Re-appointment of Deloitte LLP as external Auditor of the Company
- **22/15:** Authorisation of the Board to agree the external Auditor's remuneration
- Approval of the re-election of Directors: **22/16:** Joanne Segars; **22/17:** Eithne McManus; **22/18:** Susan Martin; **22/19:** Mike Weston and **22/20:** John Burns.

All of the resolutions received unanimous approval.

2.4 Investments in Collaborative Arrangements

At the end of August 2022, the Fund had the following investments in LGPSC vehicles:

	£m
LGPS Central Global Active Corporate Bond Fund	340
LGPS Central All World Equity Climate Multi Factor Fund	310
LGPS Central Emerging Mkt Equity Active Multi Manager Fund	181
LGPS Central Credit Partnership II LP	8*
	839

*Part of a commitment of £50m.

In addition to the assets managed by LGPSC, the following assets were managed through collaboratively procured arrangements:

	£m
Baillie Gifford Positive Change Fund	103
RBC Global Equity Focus Fund	404
LGIM MSCI World Low Carbon Target Index Fund	672
LGIM UK Equity Index Fund	733
LGIM Japan Equity Index Fund	217
LGIM Emerging Markets Equity Fund	109
	2,238

The percentage of total Fund assets invested in LGPSC products and via other collaboratively procured arrangements has now increased to just over **51%**, which represents good progress in the transition to pooled investment arrangements.

Due diligence is currently being carried out on the LGPS Central Global Sustainable Equity Active Broad Fund and Fund officers are contributing to the development of the mandates for LGPSC's proposed indirect property funds.

2.5 Climate Risk Report

The Fund has received a draft 2022 Climate Risk Report from LGPSC. The report is currently being reviewed and will be presented to Committee in December 2022. Information from this report will contribute to the updating of the Fund's TCFD (Task Force on Climate-related Financial Disclosures) Report.

2.6 Mid-Year Business Planning

A meeting has recently been held between LGPSC and Partner Funds to update on progress against the company's 2022-23 business plan and to determine the Partner Funds' priorities for their pooling company for 2023-24 to feed into next year's business plan.

2.7 2022 LGPS Central Pool Cost Savings Model

A new simplified cost savings model has been developed for the Pool by Fund officers and has been reviewed by the other Partner Funds and by LGPS Central Limited. The new model will enable costs savings to be monitored more easily and on a more regular basis.

The output from the new cost savings model (the model) will be reported to the LGPS Central Joint Committee on 11 November 2022 and shared with Committee once it has been noted by the Joint Committee. Whilst the delivery of cost savings is one of the primary objectives of investment pooling, the model continues to demonstrate the importance of focusing on net investment performance returns.

2.8 Presentation by LGPS Central Limited

Mike Weston and Matt Jones (Chief Stakeholder Officer) from LGPSC will be attending Committee to provide an update on:

- the company
- the Pension Fund's investments in LGPSC products and the performance of those products
- product development
- responsible investment and engagement

The LGPSC presentation is attached as Appendix 2.

Members of the LGPSC team will also be providing a more detailed update on the investment performance of the LGPS Central Global Active Investment Grade Corporate Bond Multi Manager Fund and the LGPS Central Emerging Market Equity Active Multi-Manager Fund in the closed part of the meeting.

3. Implications

Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – LGPSC Presentation

6. Recommendation(s)

That Committee notes the contents of the report.

7. Reasons for Recommendation(s)

One of the roles of Committee is to oversee the Pension Fund's involvement in investment pooling.

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Implications

Financial

1.1 The Pension Fund pays for a share of LGPSC's budget via company recharges for governance, operator and product development costs in addition to paying LGPSC investment management charges. The forecast share of LGPSC costs for 2022-23 was included in the Fund's budget for the current year which was approved by Committee in March 2022 as part of the Pension Fund's Service Plan.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None