

Agenda Item No 4 (e)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

31 July 2019

Report of the Director of Finance & ICT

LGPS CENTRAL JOINT COMMITTEE MEETING

1 Purpose of the Report

To note the items that were considered at the recent LGPS Central Joint Committee Meeting.

2 Information and Analysis

A meeting of the Joint Committee of the LGPS Central Pool was held in Nottingham on 21 June 2019. The Vice Chair of the Pensions and Investments Committee represented Derbyshire at the meeting.

The Joint Committee is a public forum for the Councils within the LGPS Central Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client services, the delivery against the LGPS Central business case and to deal with common investor issues.

The agenda for the meeting is attached as Appendix 1; the other meeting papers are also attached as appendices and covered:

Minutes - Joint Committee Meeting 14th December 2018 (Appendix 2)

Procedural Matters

Joint Committee Terms of Reference (Appendix 3)

National Picture –briefing on pooling and wider LGPS developments

Practitioners' Advisory Forum Report (Appendix 4)

Pool Risk Register (Appendix 5)

Assurance Framework – presentation by Audit Working Group

LGPS Central Limited Performance/Progress Update (Appendix 6)

Cheshire West and Chester Council clerk meetings of the LGPS Central Joint Committee and all meeting papers are held on the website of Cheshire Pension Fund: <http://www.cheshirepensionfund.org/governance-of-the-cheshire-pension-fund/lgps-central-committee/>. There is a link to this page on the LGPS Central Pool section of Derbyshire Pension Fund's website.

Councillor Eric Kerry, representing Nottinghamshire County Council, was appointed as the new Chair of the Joint Committee. The outgoing Chair, Councillor Ian Brookfield has now been appointed as Leader of Wolverhampton City Council. Councillor Thomas Biggins, representing Shropshire Council, was appointed as the Vice Chair of the Committee. The Chair and Vice Chair of the Joint Committee hold the offices until the first meeting after 1 May in the following year and may be re-appointed to serve a further term or terms.

The agenda items for the Joint Committee will continue to develop as more performance data from LGPS Central Ltd and data from a new cost savings model becomes available. No recommendations were made at the meeting of the Joint Committee for consideration by the Pensions and Investments Committee.

The minutes of the LGPS Central Joint Committee meeting will be circulated to members of the Pensions and Investments Committee when they become available.

3 Considerations

In preparing this report the relevance of the following factors have been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

4 Officer's Recommendation

That the items considered at the recent meeting of the LGPS Central Joint Committee are noted.

PETER HANDFORD

Director of Finance & ICT

· **LGPS Central Joint Committee Meeting**
· **Friday 21st June 2019 10.30 am**
County Hall, West Bridgford, Nottingham NG2 7QP

Arrival and Welcome

1. Procedural matters
 - Appointment of Chairman and Vice-Chairman
 - Apologies
 - Declarations of interest
2. Minutes of the last meeting – matters arising
3. Joint Committee Terms of Reference Chris Mann
4. National picture – briefing on pooling and wider LGPS developments -
verbal update from Rachel Brothwood
5. Practitioners Advisory Forum Report Justin Bridges
6. Pool Risk Register Jill Davys

Refreshments

7. Assurance Framework – presentation by Internal Audit Sub-Group
8. LGPS Central Performance/Progress Update Joanne Segars & Mike Weston

Lunch

Attendees:

- Councillor Neil Atkin, (Derbyshire)**
Councillor Peter Osborne (Leicestershire)
Councillor Eric Kerry (Nottinghamshire)
Councillor Thomas Biggins (Shropshire)

· **LGPS Central Joint Committee Meeting**
· **Friday 21st June 2019 10.30 am**
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Councillor Colin Greatorex (Staffordshire) representing Councillor Philip Atkins

Councillor Bob Banks (Worcestershire) representing Councillor Paul Middlebrough

Representation from West Midland Pension Fund to be confirmed

Joanne Segars – LGPS Central Ltd

Eithne McManus – LGPS Central Ltd

Mike Weston – LGPS Central Ltd

Callum Campbell- LGPS Central Ltd

For further information or advice, please contact:

Charles Riley, Clerk to LGPS Central Joint Committee

Cheshire West and Chester Council, HQ, Nicholas Street, Chester, CH1 2NP

charles.riley@cheshirewestandchester.gov.uk

LGPS CENTRAL JOINT COMMITTEE

MINUTES OF THE MEETING HELD ON 14 December 2018

Shire Hall, Abbey Foregate, Shrewsbury

Attending: Councillors, Hogg, Atkin, Osborne, Kerry (Vice-Chair), Biggins, Brookfield (Chair), Inston, Banks.

Other Attendees:

Partner Fund representatives : Chris Mann , Rachel Howe (Clerk), Peter Handford, Chris Tambini, Rachel Brothwood , Melanie Stokes , Justin Bridges, Keith Palframan

Unison representative: Malcolm Cantello

LGPS Central Ltd (LGPSC): Joanne Segars (JS), John Burns (JB), Michael Marshall (MM)

Hermes EOS Ltd: Alice Musto (AM) and Bruce Duguid (BD)

Item 1 - Procedural Matters

Apologies - Councillors Greatorex, Atkins, Mark Wynn, Nigel Stevenson, Michael Hudson, James Walton, Andy Burns

Declarations of Interest – No declarations of interest were received

Item 2 - Minutes of the last meeting (29th June 2018)

The minutes were confirmed as a correct record.

Matters arising

Rachel Brothwood (RB) advised the Committee that a response from the regional branch secretaries of the North West and Midlands Trade Union Congress (TUC) regarding the nomination of a trade union representative was still awaited. The Chair confirmed that he had issued a letter encouraging their nomination, stressing the importance the Committee attached to Trade Union participation.

In the interim, Malcolm Cantello, the trade union representative from the West Midlands Pension Fund was welcomed to the meeting.

The Chair updated the Committee on the Risk Register workshop held with LGPSC earlier in the month, noting the work undertaken jointly by the Company and Partner Funds to align their respective risk registers. Further work will be

undertaken, in the light of the workshop outcomes, to refine the approach, with the final outcome being presented at the Committee's next meeting.

Item 3 National Picture – Briefing on pooling and wider LGPS matters

Rachel Brothwood updated the committee on developments following the submission of LGPS Central's latest progress report to MHCLG in October. A follow up call with MHCLG and a meeting with the Minister had taken place, attended by the Chair of the Joint Committee, LGPS Central's Chair, Joanne Segars and Chief Investment Officer, Jason Fletcher; and senior officers from the Cheshire and West Midlands Pension Funds.

Feedback from the Minister on progress had been positive, he had been particularly complimentary about the spirit in which pooling is being taken forward by the Central team, and the consensual approach to decision making. The fee savings secured on the recently launched Global Equity Sub-Fund, and progress on alternatives was also noted.

The Minister recognised that changes to Partner Funds' investment strategies arising from the 2019 actuarial valuations may impact the LGPS Central delivery programme going forward.

He also referenced further guidance due to be released on pool governance and the management of transition costs, which would provide helpful clarification on a number of issues which pools had encountered since operational 'go-live'.

The Committee noted the update and the positive ministerial feedback, the Chair thanked all parties for their contribution to the progress achieved.

Item 4 – LGPS Central company presentation – progress to date

Joanne Segars (JS) introduced John Burns (JB), who will be acting as interim Chief Executive pending the appointment of Andrew Warwick-Thompson's successor.

JS and JB presented an update on the work of the Company since the last meeting of the Joint Committee and the focus and priorities for the next 6 months.

Key milestones achieved include:-

- LGPSC signing up to the Transparency Code on investment costs reporting.
- Conclusion of the Cost Sharing Agreement with Partner Funds.
- Launch of company website.
- Launch of Global Equity Active Multi-manager Fund
- FCA permissions for Private Equity offer secured.
- Significant savings negotiated (and being negotiated), over and above those planned.

The Company's main focus has been on making sure that solid foundations are in place to support future operational delivery and development, including robust legal, governance and compliance arrangements, staff training and performance management. JS also reminded the Committee that in addition to launching new sub-funds, the Company were also managing a number of segregated mandates for Partner Fund on an advisory or discretionary basis.

She outlined some key learning points from the Company's experience so far, specifically the need for earlier engagement and more effective working with Partner Funds on development of the Strategic Plan and Budget. Recent work with the Practitioners Advisory Forum (PAF) Finance Sub-group demonstrated a clear commitment to improvement.

JS explained that the Board fully recognised the need for the Company to move beyond 'start up', into 'business as usual' mode. Key areas of focus will include:-

- Building stronger relationships with Partner Funds, and a better understanding of their investment requirements and wider political and operational challenges. (The website, and soon to be launched Client Information Library, Log-in and Access portal (CILLA) will be key to improving communication and transparency).
- Building the pool's assets under management (AUM), by listening to clients and developing a joint transition plan, which is both realistically deliverable, and aligned with the pool's shared objectives.
- Succession planning and reduction of key man risk.
- Developing a sharper and more focussed set of Key Performance Indicators so that there are some clear measures against which LGPSC can be held to account.

In closing the presentation JS noted that success (in terms of cost savings) was not to be at the expense of performance, and key to all actions and decisions was the recognition that investment pooling needed to deliver for the scheme members by ensuring Partner Funds are able to pay pensions when due.

Councillor Osborne stressed the importance of investment performance to individual pension committees, given their 'trustee' responsibilities, and reminded the Company that ultimately they would be judged on that basis. He cautioned against over-emphasis on 'process', as a means of providing assurance to Partner Fund investors.

JS confirmed that investment performance is the company's overriding priority, but as a regulated body, due regard also needed to be given to operational compliance. JB added that the delivery of superior long term investment returns net of costs, lies at the heart of all manager selection and monitoring decisions, acknowledging that communication and performance reporting tools for Partner Funds will be key in terms of providing investor assurance and transparency.

Councillor Brookfield stressed the need for a comprehensive performance reporting to feature as a key item on future Joint Committee agendas.

Councillor Kerry acknowledged that the Company had direct responsibility for performance delivery, but stressed that Pension Fund Committees had a key role in accounting publicly for the effective delivery of their investment strategies, and needed to be able to justify the not inconsiderable ‘overhead’ the regulated company structure had imposed.

Councillor Atkin requested an update on the position with regard to the Chief Executive Officer (CEO) appointment, and also progress on LGPSC’s 2019-20 Strategic Plan, Budget and staffing plan which members were keen to see ahead of the company Shareholder Meeting in February.

JS explained that good progress had been made with the CEO appointment process, following a strong candidate response. Arrangements are being made for an informal ‘meet and greet’ with members early in the New Year and ahead of the final appointment decision which will need to be approved at the Shareholder Meeting.

With regard to the Strategic Plan, Budget and staffing requirements, JB stated that the business plan was currently under discussion with a working group of officers representing Partner Funds. A draft for sharing with members would be available early in January, with a view to final approval at the Shareholder Meeting. He referred to the on-going recruitment challenges faced by the company, arising from the wide range of skills required to support the scale and scope of the planned investment offer, and the need to address long term succession and key person risks.

Councillor Biggins asked how LGPSC will address manager performance issues, particularly in respect of multi-manager funds where results for individual managers could vary.

JB explained that performance will be reported on a monthly basis to all investors, so that they have a clear ‘line of sight’ in terms of under/over performance. No fixed triggers have been set to determine when a manager might be fired, but all mandates include appropriate termination clauses. JS added that it will be for LGPSC to decide if, and when a manager should be fired (this is a clear requirement of the Investment Regulations). Excessive manager ‘churn’, especially in the face of short term market volatility is not however, in investor’s best interests, and any decision to terminate would not be taken lightly.

Councillor Kerry made the point that ultimately (and as a last resort) Funds could simply choose to disinvest if they weren’t happy with performance.

Rachel Brothwood reminded the Committee that part of their the role, as investors and customers of the company will be to oversee performance, raise issues of concern and to support/challenge LGPSC, as appropriate in their management of investment service providers.

Malcolm Cantello referred to the LGPSC website home page, and the inclusion of the 'Partnership is our Purpose' headline, stressing that the 'partnership' extended not just to Partner Funds, but also to more than a million individual scheme members who participated in the Local Government Pension Scheme via LGPS Central. Public transparency and reporting (via the website) should therefore, be given equal priority to client reporting via the secure portal (CILLA).

He also requested specific clarification on how transition costs are being monitored and managed, and whether tax incurred on transition could be recouped, given that pooling is a mandatory requirement.

JS explained that extensive work had been undertaken, with Partner Funds and transition advisors to establish the most cost effective approach. LGPSC will appoint specialist transition managers to provide collective co-ordination across all parties involved. Melanie Stokes (MS) confirmed that in respect of the Global Active Equities transition, co-investors are being engaged via weekly calls with LGPSC and the transition manager. Whilst some risks (such as market timing) are not controllable, this approach should ensure that costs are minimised as far as possible.

JS confirmed that tax incurred on transition was not recoverable. Every effort is being made to minimise tax liability however, by undertaking re-balancing post transfer into the Approved Contractual Scheme (ACS) and by taking advantage of reciprocal tax agreements negotiated with foreign and overseas tax authorities.

Councillor Brookfield queried the extent to which partnership and relationship building skills had featured in the CEO selection process. JS confirmed that the CEO job description had been reviewed and updated to give appropriate emphasis to relationship management and 'political' skills and that these had been given key focus throughout the process.

Clarification was also requested on the plan and timetable for further sub-fund launches and how Responsible Investment is being /will be factored into the manager selection process.

JS explained that discussions were on-going with Partner Funds to confirm transition priorities and this will inform the next iteration of the transition plan. The company are currently focussing on two sub-funds (Global Emerging Markets and Corporate Bonds) for launch in the first quarter of 2019. Product Information days to brief Partner Funds on the detailed proposals are being factored into the launch timetable and a Stakeholder Day to update more generally on transition plans is being arranged.

Michael Marshall (MM), Director of Stewardship & Responsible Investment explained how he had been involved in the recent selection process for Global Equity managers. Responsible Investment (RI) had been given a significant weighting at all stages of the process. He had been involved in developing a clear pass/fail RI test, to ensure that shortlisted managers' approach to stock selection, voting and engagement were aligned with LGPS Central's agreed policies and frameworks. Future

monitoring arrangements will ensure that managers are held to account for their management of RI issues as an integral part of their overall performance.

Item 5 – Update from the Practitioner’s Advisory Forum (PAF)

MS from the Staffordshire Pension Fund presented an update on the PAF’s work over the last six months, explaining the role and key areas of focus for the five sub-groups, through which the majority of the detailed work is progressed.

The work of the Finance Sub-group in supporting the internal audit teams of the Partner Funds to develop a Pooling Assurance Framework and a joint approach to future audit planning and delivery was specifically highlighted, as an area which the Joint Committee may wish to discuss at a future meeting, given its relevance to their wider oversight role.

In terms of current priorities, the transition of assets to the recently launched Global Equites sub-fund, development of the product delivery ‘pipeline’, 2019/20 Strategic Business Plan and Budget and updating the Cost Savings Model are key areas of focus.

MS explained that whilst the PAF agenda presented many challenges, the process of building consensus through compromise is delivering benefits in terms of questioning established approaches, developing (new) ways of thinking, and opening up opportunities for wider joint working and co-operation between the Partner Funds. The benefits of a collective approach on RI in particular, in terms of increased capacity and expertise, are being recognised by all parties.

Councillor Brookfield on behalf of the Committee, thanked MS for her update, and all members of PAF for the extensive work that goes on behind the scenes to support LGPS Central’s progress, acknowledging that this has largely been taken on in addition to their pre-existing Pension Fund responsibilities. He also noted that the value of pooling lay not just in the successful delivery of a government objective, but also in the collaboration and partnership fostered by the process, which had the potential to unlock much wider benefits.

Councillor Kerry suggested that the extensive due diligence that is being undertaken on behalf of scheme members by PAF and others is not perhaps fully appreciated and that more should be done to address this.

RB suggested a joint communication release by the LGPSC and Partner Funds to update on progress so far and the benefits being secured for scheme members.

Item 6 – LGPS Central responsible investment and stewardship service presentation

MM introduced representatives from Hermes EOS, recently appointed as LGPSC's Engagement and Stewardship partner.

Bruce Duguid (BG) Head of Stewardship, and Alice Musto (AM) Relationship Manager explained Hermes integrated stewardship approach and capabilities, which includes; company engagement, voting, advisory services and portfolio screening. The approach is collaborative, given the importance of scale in securing access to companies at Board level and decisive influence through voting. Hermes currently represent 40 clients globally, with over £367bn assets under advice.

BG referenced conclusions from recent academic research, which support LGPS Central's view that :

- environmental, social and governance (ESG) factors can enhance corporate value
- there is a clear link between engagement and improved long term value
- direct, personal engagement at Board level (with the chair) has a major influence on engagement success.

During 2018 Hermes engaged with 670 companies on 1783 issues.

A number of company specific case studies were used to demonstrate the impact achieved through successful engagement.

BG also outlined some of the key ESG risks facing companies, many of which receive only limited attention at senior board level . Hermes engagement 'themes' are developed to increase focus on these issues at strategic level. Current themes include climate change (both the demand and supply side), human rights, human capital investment, gender diversity, executive remuneration and cyber risk. New and emerging themes include sustainable meat and alternatives, plastics, global fair pay, financial inclusion, anti-microbial resistance and artificial intelligence.

Councillor Osborne asked what options shareholders had if engagement didn't prove successful. BG explained that engagement is a long term process, but ultimately active investors have the option to disinvest. This is not the case for passive investors, such as large pension funds.

Councillor Kerry queried whether other shareholders would benefit from LGPSC's investment in active stewardship and engagement . BG agreed that this would be the case, as engagement increases corporate value, rather than individual stakeholder value. Large, active shareholders (such as pension funds) benefit more however, simply as a result of their scale.

Malcolm Cantello asked about the impact of shareholder resolutions on company behaviour. BG advised that they can sometimes be helpful in 'unblocking' issues, but that they needed to be used selectively, and as an escalation tool. There are obvious risks where majority support is not achieved, because companies can use this as a reason to close down further engagement. In response to a follow up question

regarding collaboration with other shareholders, BG confirmed that this was part of the Hermes approach, but it presented some challenges.

Councillor Osborne asked about Hermes approach to executive remuneration, given that current government policy creates a framework that appears to allow excessive remuneration packages, even in failing companies. BG agreed that there was a structural problem in terms of the ratio of fixed to variable pay, with too much focus placed on performance against short term objectives, rather than the creation of long term shareholder value. Hermes regularly contribute, along with other shareholder representative bodies, to initiatives aimed at influencing government and other public policy makers.

Councillor Brookfield asked about client reporting and how Partner Funds could monitor voting and other stewardship activity undertaken on their behalf. MM explained that detailed information on individual company votes, for example would be available daily and reported via the website, but quarterly summaries of engagement and other activity would be incorporated into the LGPSC Quarterly Stewardship reports. He undertook to share relevant ad hoc reports and materials directly with the Joint Committee.

Councillor Atkin referred to specific issues raised at the Derbyshire Pension Fund with regard to fracking, and asked how easy it is for Fund's to measure their exposure to this form of energy extraction. BG advised that this is currently very difficult, as large energy companies may not be directly involved in fracking but are often invested in subsidiary or other companies who are. Also, energy companies do not routinely disclose how much of their extraction is attributable to a specific source.

The Chairman thanked BG and AM for their presentation.

In closing the meeting the Chairman wished all members a Merry Christmas and Happy New Year, thanked Shropshire Pension Fund for hosting the meeting, and thanked the officers for their commitment and hard work over the last twelve months.

LGPS Central Joint Committee Meeting

Friday 21st June 2019

Joint Committee Terms of Reference

Report of the Joint Committee Clerk

1. Purpose of the report

This report asks the Committee to endorse its Terms of Reference and also to agree a protocol for dealing with public questions at future meetings.

2. Background

The Joint Committee's current Terms of Reference (attached at Appendix 1) were originally adopted in March 2018. They provide for review on an annual basis, to ensure that they remain fit for purpose as the partnership between the eight LGPS Central pool funds develops, and in the light of shared experience.

The Joint Committee has met on two occasions since the LGPS Central pool was formally launched on 1st April 2018.

3. Content

Whilst considerable progress has been made over the last twelve months, the LGPS Central partnership, including the Joint Committee arrangements are still to a large extent, in their infancy. The process of transition to the new pooled working arrangements will be on-going for some while, and will need time to embed and mature.

No fundamental changes to the role and function of the Committee are therefore proposed at this stage, although a review of all legal documents, (including the Inter-Authority Agreement which provides the legal framework for the establishment and operation of the Joint Committee), is being undertaken to update names, job titles, contact details etc. and to correct/improve drafting where required.

Given however, that meetings of the Committee are open to the public, and that there is a general expectation that business will be conducted in accordance with the requirements of the Local Government Act 1972, it would

be helpful to agree a procedure for dealing with questions from members of the public at future meetings.

A suggested procedure is attached at Appendix 2. This has been agreed by the Practitioners Advisory Forum and follows in all significant respects, the arrangements most local councils have adopted for the conduct of their committee meetings.

The procedure requires that questions are submitted in writing, to the Committee clerk by noon on the second working day before the relevant Joint Committee meeting, with fifteen minutes being allowed on the agenda for responses.

The procedure also outlines the discretion to be exercised by the Chairman and Vice-Chairman where the time allowed for public questions is likely to be exceeded and the circumstances in which questions will be rejected.

4. Recommendation

The Joint Committee is recommended to:-

- Endorse the Terms of Reference included at Appendix 1, subject to further review in twelve months' time
- Approve the procedure for Public Questions included at Appendix 2 for all future meetings.

LGPS CENTRAL JOINT COMMITTEE

TERMS OF REFERENCE

The Joint Committee is a public forum for the Councils within the LGPS Central Pool (the Pool) to provide 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. The Joint Committee shall provide assistance, guidance and recommendations to the individual Councils in connection with the functions set out below 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.

Membership

- The Joint Committee shall consist of one elected member from each Council.
- Each council may nominate one or more elected member (s) to attend any meeting of the Joint Committee or its sub-committees in place of an appointed member from a Council, subject to prior notification being given to the Clerk to the Joint Committee or his or her nominee.
- Each council may remove its appointed members or substitute members and appoint different members and substitutes by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- Each appointed member or substitute shall be entitled to remain on the Joint Committee for so long as the Council appointing them so wishes, but shall cease to be a member or substitute if he or she ceases to be a member of the appointing Council or if that Council removes the appointed member.
- Any casual vacancies will be filled as soon as reasonably practicable by the Council from which such vacancy arises by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- Each member of the Joint Committee shall comply with any relevant codes of conduct of their Council when acting as a member of the Joint Committee.
- A Trade Union representative shall be appointed as a non-voting member of the Joint Committee to represent the scheme members across the Councils' pension funds.

Role and function

1. To provide oversight of the objectives of the Pool as listed below:
 - to meet the investment objectives of the participating LGPS funds;
 - to establish a collaborative platform through which the Councils can aggregate their pension assets with a view to providing scale economies and improved investment efficiency;
 - to develop internal investment management capabilities for the collective benefit of the Councils in order to provide wider investment choice and market competition;

- to create capacity to invest in asset classes which individual funds may find difficult to access;
- to stimulate innovation, and provide an opportunity for funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector);
- to act as a responsible, long term investor, using its influence to promote the highest standards of corporate stewardship;
- to create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments; and
- Following transitioning arrangements, to invest each Shareholder's pension assets including any assets administered for and on behalf of other parties either through the collective investment vehicle(s) operated by LGPS Central Ltd, as the primary and exclusive collective investment vehicle(s) for all eligible pension assets, or by appointing LGPS Central Ltd to manage any non-eligible pension assets outside of such vehicle(s).

2. To provide oversight of the delivery of client service.
3. To provide oversight of delivery against the LGPS Central business case.
4. To deal with common investor issues, with a particular focus on Responsible Investment

Practitioners' Advisory Forum

The Practitioners' Advisory Forum (PAF) shall provide a central resource for advice, assistance, guidance and support for the Joint Committee and shall support the functions of the Joint Committee. PAF shall provide technical support at meetings of the Joint Committee and shall act as a conduit for the Joint Committee to communicate back to the respective Councils and/or direct to LGPS Central Ltd as appropriate.

Meetings

- The Clerk to the Joint Committee will be the Head of Paid Service or nominee of Cheshire West and Chester Council who will work within a budget set by the Councils.
- The Joint Committee will meet twice a year in June and December with the location to be rotated around the Shareholding Councils.
- The Clerk to the Joint Committee or his or her nominee will give notice to the public of the time and place of the meeting in accordance with Part VA¹ of the Local Government Act 1972. At least five clear working days before a meeting, the clerk to the Joint Committee or his or her nominee will send a summons signed by the Clerk to the Joint Committee or his or her nominee electronically to every Member. The summons will give the date, time and

¹ Meetings of councils and their committees are expected to be open to the public, except in the circumstances set out in Part VA of the Local Government Act 1972.

place of each meeting and specify the business to be transacted, and will be accompanied by such reports as are available.

- Each Council within the LGPS Central Pool will publish a link on its own website to the relevant page on Cheshire West and Chester Council's website providing access to the Joint Committee's agendas and minutes.
- The Chair and Vice Chair of the Joint Committee will be elected by the Joint Committee from amongst its members and shall hold those offices until the first meeting after 1st May in the following year.. Both the initial and subsequent Chairs and Vice Chairs may be re-appointed to serve a further term or terms.
- If there is a quorum of members present but neither the Chair nor the Vice Chair is present at the meeting of the Joint Committee, the other members of the Joint Committee shall elect one of the members of the Joint Committee as Chair of the Joint Committee for that meeting only.
- The quorum of a meeting will be at least five members who are entitled to attend and vote.
- Each elected member shall have one vote on any recommendations. Any matter will be decided by a simple majority of those members of the Councils represented in the room at the time the question was put. In the case of an equality of votes the Chair shall have a second or casting vote but before exercising this, the Chair shall consider whether it is appropriate to defer the matter to the next meeting of the Joint Committee. The Chair shall take account of the governing principles to the LGPS Central pooling agreement when exercising the casting vote.
- The member appointed as a substitute shall have the same voting rights as the member for whom he or she is substituting and who does not attend. Where the appointed member attends the substitute member shall not have any right to vote after the conclusion of the item of business being discussed when the appointed member arrives, but may remain at the meeting as an observer.
- The Chair will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.
- The Clerk to the Joint Committee or his or her nominee shall arrange for written minutes to be taken at each meeting of the Joint Committee and shall send them to the members of the Joint Committee for on-line approval within three weeks of the meeting. At the next meeting of the Joint Committee, the Chair shall move that the minutes of the previous meeting be ratified as a correct record. If this is agreed, the Chair of the Joint Committee shall sign the minutes.
- Any elected member of the Councils who is not a member of the Joint Committee may speak at a meeting of the Joint Committee if the Chair of the Joint Committee invites him or her to do so but an elected member of the Councils who is not a member of the Joint Committee shall not be entitled to vote at a meeting of the Joint Committee.
- Meetings of the Joint Committee shall be open for members of the public to attend unless the Joint Committee determines that it is necessary to exclude members of the public in accordance with Part VA of the Local Government Act 1972 or the Joint Committee determines that it is necessary to take action because of a disturbance. Copies of the agenda for meetings of the Joint

Committee and any reports for its meetings shall be open to inspection by members of the public at the offices of all of the Councils unless the Clerk to the Joint Committee determines that any report relates to items in which his or her opinion are likely not to be open to the public.

- In accordance with Part VA of the Local Government Act 1972, the Joint Committee shall exclude the public from its meetings whenever it is likely, in view of the nature of the business to be discussed or the nature of the proceedings that, if members of the public were present, confidential information would be disclosed to them in breach of the obligation of confidence.
- If any member of the public interrupts proceedings, the Chair will warn the person concerned. If they continue to interrupt, the Chair will arrange for their removal from the meeting room and will suspend the meeting until the member of the public has left or been removed.
- If there is a general disturbance in any part of the meeting room open to the public, the Chair may call for that part to be cleared.
- Each Council will undertake the overview and scrutiny function on its own behalf in accordance with their constitutions.
- Items for inclusion in the meetings:
 1. Update on delivery against the objectives of the Pool
 2. Investment Performance & Cost Reporting
 3. Benchmark Reporting
 4. Service Level Agreement Reporting
 5. Update on delivery against the LGPS Central Business Case
 6. MHCLG & SAB Reporting
 7. Responsible Investment
 8. Investment Outlook
 9. Training/LGPS Central Events Programme
 10. Other Relevant Common Investor Issues

Terms of Reference Review

These terms of reference will be reviewed annually.

Appendix 2

LGPS CENTRAL JOINT COMMITTEE – PUBLIC QUESTIONS

This note sets out the procedure for members of the public who wish to submit a question to be asked at the Joint Committee.

At each meeting of the Joint Committee, the public (including active members, deferred members, survivor members or employee members of the local authorities administering the pension funds that comprise LGPS Central) will be able to submit questions to the Chair of the Joint Committee to which the relevant member or officers supporting and attending the Joint Committee will respond.

A period of up to 15 minutes will be set aside for the taking of questions and answers.

Questions must be received by noon of the second working day before the day of the relevant meeting. This normally means, for example, that when a Joint Committee meeting takes place on a Wednesday, the deadline for receipt of questions is noon on the Monday of the week of the Joint Committee meeting.

Questions must be submitted in writing to the address below:

Charles Riley
Clerk to LGPS Central Joint Committee
Cheshire West and Chester Council
4 Civic Way, Ellesmere Port, Cheshire CH65 OBE
charles.riley@cheshirewestandchester.gov.uk

Please state your name and address. The Chair cannot accept anonymous questions.

Questions that have been accepted will be published on the Councils' website together with the name (but not the address) of the questioner. No person may submit more than one question to any one meeting and no more than one question may be asked on behalf of an organisation at any one meeting. No question may be sub-divided into more than two related parts.

If the Chair of the Joint Committee considers that the number of questions received is such that they cannot all be answered within 15 minutes, they will, after consulting with the Vice-Chair, select those which are to be put to the Joint Committee meeting. Any question which cannot be dealt with at the meeting because of lack of time will be dealt with by a written answer to be sent within 5 working days of the Joint Committee meeting by the member or officer of whom the question was asked.

The Chair will determine the order in which questions will be put and may group together similar questions. Questions will be read out at the relevant meeting by the Chair or Vice-Chair.

A question **must** relate to a matter for which the Joint Committee has responsibility.

A question may be rejected if it is:-

- i) illegal, improper, irregular, frivolous or offensive;
- ii) will, if answered, disclose confidential or exempt information;
- iii) relates to a matter or issue in respect of which a response has already been given under any of the pension administering Councils' complaints procedures, or which is currently being dealt with in accordance with other formal processes, such as court or tribunal proceedings or which is the subject of threatened court or tribunal proceedings by the person asking the question or a person or group which they represent;
- iv) relates to a matter or issue of a purely personal concern to the individual asking the question or their family members;
- v) is lengthy or a speech;
- vi) is an unintelligible question.

LGPS Central Joint Committee Meeting

21st June 2019

Practitioners' Advisory Forum Report

1. Purpose of the report

To update the Joint Committee on the work of the Practitioners' Advisory Forum (PAF) and its constituent working groups.

2. Background

PAF is a working group of Section 151 and Pensions Officers appointed by the Partner Funds within the LGPS Central Pool (the Pool) to support the delivery of the objectives of the Pool and to provide support for the Pool's Joint Committee and Shareholders' Forum. It is intended that, where possible, PAF should speak as "one voice" to reduce the duplication of costs and resources and maximise the benefits of scale.

PAF is supported by four individual working groups:

- Client Oversight & Governance Group
- Finance Working Group
- Investment Working Group
- Responsible Investment Working Group.

The working groups share the pool related workload of the Partner Funds and assist with the delivery of PAF priorities. The working groups report to PAF and support Partner Fund decision making.

3. PAF Update

Since the last meeting of the Joint Committee in December, PAF and individual working group meetings have focused on the following:

- Product Development & Future Sub-Fund Launches
- The LGPS Central Limited (LGPSC) Business Plan, Annual Budget & KPIs
- Transition to the Global Equity Multi-Manager Sub-Fund
- LGPS Central Pool Risk Register & Audit Assurance Framework
- Development of the Pool's Stewardship Themes
- Preparation for the Shareholders' Forum and for the Joint Committee

Current priorities for PAF and its working groups include:

- To complete the Global Emerging Markets Equity Multi-Manager and Global Corporate Bond Sub-Fund transitions
- Implement the agreed Product Development Protocol

- Cost Sharing Review & Update of the Cost Savings Model following the completion of a cost transparency review
- Ensure that LGPSC reporting meets the needs and requirements of its invested funds and to ensure that there is clarity over the governance arrangements for the Pool
- Delivery of a Responsible Investment event for Members and the Local Pension Boards across the eight Partner Funds

The reports of the individual working groups are attached as Appendix 1.

4. Recommendation

It is recommended that the Practitioners' Advisory Forum Report be noted.

Appendix 1

Client Oversight & Governance Group (COGG)

The Client Oversight and Governance Group (COGG) was formed out of combining the Governance and Client Reporting groups of the Practitioners Advisory Forum and commenced work in January 2019. LGPSC Ltd have been in attendance at all meetings. The focus of the group has been to cover key areas of governance and oversight and to develop reporting not only on LGPSC Ltd sub-funds but also to focus on other key performance areas. The remit of the group is set out below:

- Support the wider PAF in undertaking oversight of the governance arrangements and client reporting functions of the LGPS Central Investment Pool
- Assist LGPSC Ltd in developing its understanding of local government operations and governing bodies through the assistance on, and review of, draft documents in advance of their presentation to PAF and to Partner Funds' governing bodies for approval
- Develop, monitor and implement, in conjunction with the other PAF Working Groups, the necessary arrangements for the effective monitoring and oversight of LGPSC by PAF
- Ensure the necessary arrangements and effectiveness thereof are in place to review and monitor the LGPS Central Pool's adherence to the government's pooling criteria and statutory guidance
- Work on the development and implementation of and monitoring the effectiveness of client reporting protocols between LGPSC and the Partner Funds ensuring LGPSC's investment reporting meets client requirements
- Review and consider any actions resulting from LGPSC's client reporting
- Review the LGPS Central Pool governing documents
- Develop, test and assess effectiveness of compliance monitoring and internal controls framework, including development and ongoing assessment of the risk register for the wider LGPS Central pool
- Oversee the audit assurance framework

Since the group was formed in January it has met 5 times with good attendance and engagement from both Partner Funds and LGPSC Ltd. Task and Finish groups have been set up with smaller focused groups to progress key pieces of work and feedback to the main COGG meetings, this has included the following:

- Product Development Protocol – now agreed and in the process of being implemented. This key piece of work has set out how new products for LGPS Central will be developed and delivered going forwards and will enable Partner Funds and their advisers a greater number of touch points to check products being developed meet their strategic requirements. This will also enable the company to gain greater certainty over the level of Partner Fund commitments. The protocol is in process of being fully

implemented for all new products going forwards, as well as picking up those products in various stages of development

- LGPS Central Pool Risk Register – This has been developed to recognise, assess and monitor key risks for the Pool as a whole and reflects shared risks (i.e. not specifically company or partner fund risks), but risks that the Joint Committee should be aware of that could lead to delays or disruption to the development and delivery of investment pooling. It is recognised that there are a relatively high number of highly rated risks at this time, but it should be recognised that investment pooling is still in relatively early stages of implementation for what is a major change project and it is anticipated that over time that some of these risks will see ratings downgraded. The register will be reviewed regularly by COGG and will be presented to the Joint Committee meetings as part of regular reporting going forwards
- Governance working group – This group has been formed to review the legal agreements in place and where appropriate to update for changes to legislation, e.g. GDPR (general data protection regulations). The group is also reviewing the existing agreements to update to reflect the fact that LGPSC Ltd is now operational, some of the wording in the existing agreements reflects pooling in development and now needs to refer to the company and its operations. External legal advisers have been appointed to assist with this process. Further updates will be brought to the Joint Committee on progress
- Investment Reporting group – Whilst sub-fund reporting has been in place since the first 3 sub-funds were created in April 2018 and related to passive equity funds, the demands of sub-fund reporting for active managed sub-funds requires a greater level of information and this group is working closely with the company to further develop investment reporting

In addition, COGG is working with LGPSC Ltd on events planning and feedback, communications and audit assurance work in conjunction with the internal audit working group. Members of the internal audit working group have also attended some of the COGG meetings to help with understanding of the oversight and monitoring of Central.

Finance Working Group (FWG)

The Finance Working Group has been established to:

- Review LGPSC's Annual Budget, represent Partner Funds in budget discussions with LGPSC, present budget reviews to PAF, co-ordinate Partner Fund responses to LGPSC and prepare budget briefing notes for the Shareholders' Forum
- Review LGPSC Quarterly Budget Monitoring Reports, represent Partner Funds in discussions on the quarterly reports and prepare relevant briefing notes for the Shareholders' Forum
- Monitor LGPSC cost sharing arrangements and determine whether Partner Funds need to trigger a cost sharing review
- Review LGPSC Final Accounts and prepare briefing notes for the Shareholders' Forum
- Develop a new LGPS Central Pool Cost Savings Model in collaboration with LGPSC
- Take a lead on final accounts and annual report disclosures for the Partner Funds

Since the last Joint Committee meeting in December, the FWG has:

- Reviewed LGPSC's Quarterly Financial Reports to Shareholders and carried out a review cost sharing arrangements for 2018/19
- Carried out due diligence on LGPSC's 2019/20 budget, reported back to PAF and co-ordinated PAF's response to LGPSC
- Prepared a briefing note for the Shareholders' Forum on LGPSC's 2019/20 Business Plan (including Annual Budget) and Regulatory Capital Statement
- In collaboration with LGPSC commenced a review of LGPSC's Key Performance Indicators (both financial and non-financial)
- Commenced a review of the LGPSC Cost Sharing Model for 2019/20, and provided input into the development of recharge bridges to allow Partner Funds to understand the changes in costs from one year to the next
- Carried out due diligence on the Business Plans for Global Active Equity Multi-Manager sub-fund, Global Emerging Market Equity Multi-Manager sub-fund, Global Corporate Bond sub-fund; Master Private Equity Pooling Partnership LP vehicle and Low Carbon Multi Factor sub-fund in collaboration with the IWG
- Reviewed CIPFA's new guidance on *Preparing the Annual Report* and co-ordinated the consultation response on behalf of Partner Funds. Subsequently developed a disclosure template to be populated by LGPSC on allow Partner Funds to meet their annual account and annual report pooling disclosure requirements
- Started to develop the new Cost Savings Model in collaboration with LGPSC

Investment Working Group (IWG)

The Investment Working Group (IWG) has continued to meet monthly over the last six months with representation from Officers of all 8 Partner Funds, together with multiple attendees from LGPS Central Limited (LGPSC), dependent on the Agenda and other items for discussion and development.

Meetings have followed a similar format thus far, beginning with Partner Fund discussions on Strategic Asset Allocation (SAA) and the potential for shared investment opportunities; specifically, in the Alternatives space, where it is recognised that LGPSC may not be able to provide a sub-fund in the short to medium term. Product Development, given the combined investment priorities identified by the Partner Funds in December 2018, has been the main discussion topic with LGPSC.

Members of IWG, alongside Members of the Client Oversight and Governance Working Group (COGG) have been instrumental in the development of a Product Development Protocol (PDP) with LGPSC. This is a 9 Phase approach which documents the various stages of developing any new sub-fund, beginning with a strategy discussion at IWG and ultimately ending with the transition of assets into the sub-fund. Key to the PDP, however, is that at every Phase there is a ‘client touch-point’ for LGPSC which ensures that Partner Fund’s (and their Advisors) continue to buy-into the product being developed and the investment managers appointed as part of the procurement process. If a Partner Fund (and their Advisors) or LGPSC are not in complete agreement, then the development of the product or procurement stage does not proceed to the next Phase, or it may be that the previous Phase gets revisited. Whilst this may seem onerous and bureaucratic and is likely to take 6-9 months in totality, it will ensure that sub-funds are launched with information being made available to all parties and within the full knowledge of all Partner Funds (and their Advisors). It should also ensure that the maximum assets available are invested.

Over the last six months, IWG has been focussed on the transitions of the:

- Global Active Equity Multi-Manager sub-fund
- Global Emerging Market Equity Multi-Manager sub-fund

And has approved Business Plans for the:

- Global Corporate Bond sub-fund
- Master Private Equity Pooling Partnership LP vehicle
- Low Carbon Multi Factor sub-fund

IWG's ongoing work includes:

- Development of the Infrastructure sub-fund
- Development of the Multi-Factor sub-fund
- Development of the Multi-Asset Credit sub-fund
- Development of the Emerging Market Debt sub-fund

Papers have also been received from LGPSC on:

- The case for investing in Global Smaller Companies
- The case for a 2% capped UK benchmark

Collaborating with IWG, LGPSC appointed both a Transition Advisor and a Transition Manager to assist with the transition of Partner Funds' assets into the Active External Global Equity Multi Manager sub-fund in March 2019. The Product Development Liaison Group (PDLG) was formed as part of this process.

PDLG consisted of a weekly 9am conference call on a Thursday morning with all interested parties involved; this included Partner Funds, the Transition Advisor and Transition Manager, Company representatives and Northern Trust as Depositary. All involved agreed this was a positive way to communicate and thus ensure a successful outcome to an extremely complicated multi-stakeholder transition. The PDLG format will be repeated with the Global Emerging Market Equity and Global Corporate Bond sub-funds in due course.

Given that LGPSC has been fully operational for over 12 months and now has considerable assets under management (AUM) the role of IWG needs to adapt. This became apparent in developing the PDP and it has been agreed that as well as Product Development and Investment Strategy, IWG has a significant role to play in monitoring Investment Performance, both performance of the individual sub-funds and the value add of LGPSC. To facilitate this, in April 2019, IWG meetings moved to a new quarterly cycle whereby the focus changes each month:

- Month 1 (Jan, Apr, Jul, Oct) – Product Development
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

Following Partner Fund's 2019 Actuarial Valuations and subsequent reviews of Investment Strategy, the IWG in September 2019 will be dedicated to Strategic Asset Allocation and agreeing the collective investment priorities of the Partner Funds with LGPSC to inform the product development, work plan and business case for the LGPS Central pool in 2020/21.

Responsible Investment Working Group (RIWG)

Over the last six months, the group's focus has shifted more towards development of a "toolkit" for supporting Partner Funds develop and monitor activity and initiatives in delivering Responsible Investment across the pool.

Annual review of the Company RI&E framework – the group engaged in the first annual review of the LGPS Central Limited's responsible investment framework and voting principles, with no significant changes to report. Compliance with the UK Stewardship Code will be reviewed for signatories (Partner Funds and LGPS Central Limited) following release of a new code by the FRC in July 2019.

Stewardship themes – following discussion and survey of Partner Funds, four top-down engagement themes have been agreed for the year. These will provide a focus for engagement activity, running alongside a number of other ongoing engagement themes (for example, executive pay). The stewardship themes for 2019/20 are:

- Climate Change
- Single-use plastics
- Technology and disruptive industries risk
- Tax – transparency and fair tax payment

Further information about these themes is set out in Appendix 2.

Engagement activity and reporting – the group continues to receive updates on company engagement activity noting in particular the progressive outcomes of the Climate 100+ initiative which is making marked progress in changing company behaviour in the management of Climate Change risk, as a direct result of engagement with institutional investors. The Quarterly Engagement Report provides an overview, with individual sub fund reporting being developed to include more specific detail on engagement relevant to holdings in LGPS Central's underlying investment funds.

AGM season and active ownership through voting – in preparation for a heavy voting season, a process has been established for Partner Funds to receive updates and feedback on voting advice and intentions, in line with the agreed Voting Principles, where these may be material and of interest and voting delegated to LGPS Central Limited through investment in pooled sub-funds.

Manager oversight – a framework for assessing and monitoring manager integration of RI considerations has been developed to run alongside the manager monitoring programme; with reporting back to Partner Funds being developed alongside wider sub fund reporting.

RI event for pool members – as interest in pension fund responsible investment activity continues to grow, together with the range of issues to discuss the group are currently working to develop a event for pool members, giving opportunity to come together, consider and debate issues first hand.

The Director of Responsible Investment & Engagement continues to support Partner funds individually with member training, development of Fund policies, responses to individual enquiries, and presentations to a variety of audiences. Following successful recruitment, the support team for this work is set to expand in June.

The group continues to monitor wider-market activity including the emergence of new research and guidance to inform policy review. Representatives from the pool continue to engage with the Cross-Pool RI group and LAPFF. New guidance for Funds on RI policy is being developed by the Scheme Advisory Board.

Background to working group

The RI Working Group (RIWG) has been established to work with the Company operator, LGPSC, to:

- Assist with the development and annual review of the Responsible Investment and Engagement (RI&E) Framework and supporting policies which govern the implementation of RI strategy within the Pool
- Establish working practices which enable the Company to support each Partner Fund in developing and delivering its own RI strategy
- Facilitate discussion on common issues (individual company and themes for engagement or relating to investment mandates) identifying areas for deeper dive review
- Receive updates on the Company's voting and engagement activity, supported by the appointed stewardship provider, and develop RI information and activity reporting to Partner Funds, the Joint Committee and individual Pension Committees

The RIWG is made up of representatives of four Partner Funds (Cheshire, Staffordshire, West Midlands and Worcestershire) and the Company's Director of Responsible Investment & Engagement. Feedback and recommendations from the RIWG are provided to each monthly PAF meeting.

Appendix 2 – Pool Stewardship Themes

Whilst stewardship activities will continue across a wide range of topics, the following have been selected as areas of focus for 2019/20

Theme	Rationale
Climate Change	<p>Climate change is regularly among the World Economic Forum's top five global risks, both in terms of likelihood and impact. Through both physical risks (e.g. increases in extreme weather events) and market risks (e.g. impact of carbon pricing or technology substitution), climate change could come to impact institutional portfolios. In addition, greater incidence of flooding, wildfires, chronic precipitation, sea level rise, and so on, could have profound societal consequences.</p> <p>In the UK, campaign groups' governments and regulators are increasingly taking an interest in the extent to which investors are managing climate-related risks.</p>
Single-use plastics	<p>Plastic pollution is a global problem that is continually growing due to both an increase in consumerism and an increase in the number of plastics used to manufacture the things we use on a daily basis. Many of these are single-use items, which are used once and then end up polluting the environment for hundreds of years. Some companies are starting to change the way they use these plastics, and are actively taking steps to reduce waste.</p> <p>As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, more plastic taxes, and reputational damage as consumers and policy-makers become more aware and mindful of the problem.</p>
Technology and disruptive industries risk	<p>In recent times child screen addiction has become a very real issue along with inappropriate content online, often spread via social media. These issues pose a threat to both the mental and physical health of future generations, the costs of which could be far-reaching. Evidence suggests that technological improvements have also contributed to over-consumerism within society (due to the ease of online shopping around the clock). This additional consumption contributes to environmental issues due to excessive packaging and the transportation of goods around the globe.</p> <p>Another modern technological threat is the risk of malicious political interference, which has been suspected in both the 2016 EU referendum and the most recent US presidential elections, posing a threat even to mature democracies. With technology stocks being a significant driver of global equity performance on a 3-5 year view, were ESG risks to further crystallise in this sector there could be material consequences for portfolios with an equities (particularly growth equities) bias.</p>
Tax - transparency and fair tax payment	The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation's contribution to the economies it operates in, tax is a key dimension in building that trust. In the current economic climate, the public is calling for a clearer picture of organisations' tax policies, and the amount of tax they pay. At a societal

level, the more companies that fail to pay their fair share of tax, the greater the financial strain on essential social infrastructure.

Global corporate tax avoidance is estimated to cost governments \$240 billion globally in foregone revenues each year. Companies with overly aggressive tax strategies could be storing up liabilities and could damage their reputation with key stakeholders.



LGPS Central Joint Committee Meeting

Friday 21st June 2019

LGPS Central Investment Pool Risk Register

Report of the Practitioners Advisory Forum

1. Purpose of the report

This report asks the Committee to review the LGPS Central Investment Pool risk register, developed in collaboration with LGPSC Ltd and Officers of the Practitioners Advisory Forum, to assist with monitoring the risks associated with the Investment Pool and its implementation.

2. Background

The Joint Committee at its meeting on 27 June 2018, considered an initial draft risk register provided by the Practitioners Advisory Forum. It was agreed at that meeting, that further work was required to incorporate wider input from LGPS Central Ltd., and that a working group comprising the Chair and Vice Chair of this Committee (or their nominated substitutes), along with the Board of LGPSC Ltd, and fund officers be set up to progress a collaborative approach to the Investment Pool Risk Register, before bringing an updated version to the Joint Committee. The Risk Register being presented to this Committee is the outcome of that collaboration to agree key risks, controls and an assessment of risks.

3. Content

Pension Funds will typically maintain a risk register to identify the key risks faced by the Funds themselves, and how these might feed into the overarching Administering Authority risk management process. For each Fund, it is likely that the individual risk registers will include risks surrounding investment pooling as it applies to the operation of their Fund. LGPS Central Ltd similarly has its own risk register which reflects the assessment, controls and status of risks to the company.

The risk register being presented reflects the risks as assessed by the working group, to the Investment Pool in its widest definition, and should not be seen as a reflection of the risk assessment of either the company, or individual partner funds, although there are inevitably some areas of common ground.



As members of this Committee will recognise, the management of risks is key to delivery of wider strategic objectives, but also the identification of opportunities. Risk management is the process of identifying risks which impact on the achievement of objectives, the evaluation of their probability/likelihood and potential consequences/ impact, and the determination of appropriate management action across 5 broad categories:

- Control;
- Minimise;
- Eliminate;
- Transfer the risk exposure;
- Accept

The Pool Risk Register under consideration by the Joint Committee has been developed to capture key risks surrounding pooling that could impact across all parties involved in LGPS Central Pool. Reflecting on their governance role as both shareholders and clients for LGPS Central, it is important for members of this Committee to consider the high-level strategic risks that could impact on the successful delivery of investment pooling and how these risks can be managed or mitigated.

The risks covered in the risk register have been divided into 8 categories to identify the types of risk that the investment pool might face as it moves forward. The risks have therefore been categorised (in no particular order), as:

- Resources – This includes recruitment and retention at LGPSC Ltd but also Partner Funds, as well as budgetary constraints.
- Regulatory Environment – This section recognises the regulatory arena in which both the pension funds and the company operate and the risks.
- Political – This encompasses both changing attitudes to investment pooling, but also the wider political environment.
- Reputational – This includes risks around negative press coverage around what is a major change management project, but also challenges around ESG risks.
- External and Third Party – Recognises reliance placed on external providers and concentration of suppliers in some areas.
- Strategic – Recognition of risks of divergence from strategic objectives, and implementation risks including delays to product development and transition of assets.
- Investment – It is recognised that all investments come with risks and that returns do not always meet targets, changing asset allocation requirements may mean products no longer meet strategic requirements



- Operational and Financial – These risks encompass cyber security and budget management, as well as the cost sharing agreement

The magnitude of risks within the register are assessed along two dimensions:

- Likelihood – the probability that a risk will materialise
- Impact – the consequences if the risk were to materialise

These are scored on a matrix, which indicates overall levels of risk as follows:

- High risk (red) – need for early action / intervention where feasible, although recognising that there are some high risks that may have to be just accepted, as they arise as a result of external forces which cannot be controlled
- Medium risk (amber) – action is required in the near future.
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

Whilst the majority of the risks before controls are applied are assessed as high risks at this stage, this does in part, reflect the early stage development of investment pooling. However, after applying controls, the number of risks with a red rating drops to one, namely political risk; where a lot of the factors are, and are likely to continue to be, outside the control of the investment pool as a whole. The remainder at this stage, have been assessed as medium risk, but it is anticipated that as LGPS Central investment pool continues with implementation, these risks will be further reduced as a result of effective management action and collaborative, partnership working between Funds and the company.

The risk register attempts to identify a series of risks that apply across LGPS Central Investment Pool. The Joint Committee will receive a presentation on the risk register that has been developed and discussed in detail with working group.

The risk register is very much seen as a live document, and will be considered as part of the ongoing work of PAF in conjunction with the company. The risk register will form part of the regular reporting to the Joint Committee; any new or emerging risk will be captured and reported along with changes in risk ratings.

4. Recommendation

The Joint Committee is recommended to:-

- Note the contents of this report and the presentation.



Joint Committee Meeting

21st June 2019

Nottingham

1.0 INTRODUCTION

1.1 It is now over 12 months since LGPS Central Limited (LGPSCL) was launched in April 2018. Much work has been done during that period, and with the collaboration of its 9 Partner Funds, much has been achieved. However, LGPSCL is aware that there is still plenty to do.

1.2 LGPSCL is responsible for approximately £17bn of assets under its stewardship including Pooled, Discretionary, Advisory, Advisory & Execution and Execution-only mandates.

1.3 To date, the Company has launched 4 ACS funds – 3 of which are Passive and 1 of which is Active. It has also launched the Private Equity 2018 Vintage Fund, which sits within a Scottish Limited Liability Partnership structure. The launch of 2 further Active ACS Funds (Global Emerging Markets and Corporate Bonds) is well under way. Through the Company's Product Development Protocol, it plans to launch more products over the coming year, ensuring that its products are designed to meet the investment needs of its Partner Funds and, ultimately, the requirements of those pensioners who are members of the Local Government Pension Scheme.

1.4 During this period, LGPSCL has also grown its staff from a handful at start, to over 50 today. The Team includes a mixture of those who have experience in both the Public and Private Sectors and who have considerable experience of working in the field of investments and pension fund management.

1.5 Since launch, global financial markets have faced many geo-political challenges ranging from Brexit to international trade wars. Market volatility increases the importance of regular performance reporting to our Clients, and LGPSCL has in place a regular schedule of reporting to keep Clients fully informed.

1.6 Equally, the Company has identified key performance areas of the business which impact upon its Clients. A series of Key Performance Indicators will be used to monitor and measure how the Company serves its Clients.

2.0 KEY PERFORMANCE INDICATORS

2.1 LGPSCL has identified 14 Key Performance Indicators (KPIs).

2.2 8 of these KPIs have an impact on The Company's Clients. Other KPIs have an impact on its Shareholders.

2.3 The 8 KPIs which impact Clients are –

- The delivery of superior investment returns, net of costs
- The reduction of Asset Management Costs in each asset class
- Timely performance reporting
- Client service
- Meeting agreed product delivery schedules
- Integrating Responsible Investment & Engagement policies within all products
- Recruiting and retaining highly qualified staff

3.0 ASSETS UNDER STEWARDSHIP

3.1 Total assets under the stewardship of LGPSCL is currently approximately £17bn

3.2 The total assets under management include those which are Pooled, Discretionary, Advisory, Advisory & Execution and Execution Only mandates.

4.o INVESTMENT PERFORMANCE

The Investment Performance of the 3 Passive ACS Funds, and the single Active ACS Fund is included in the presentation to the Joint Committee.

5.o COST SAVINGS

5.1 LGPSCL's key goal is to ensure that it saves costs for its Clients.

5.2 Instrumental in achieving this goal is to ensure that external fund management fees are fully scrutinised. The Company is fully cognisant, however, that low management fees should not be detrimental to investment performance

5.3 The appointment of an independent third party to manage and monitor costs will assist the Company in achieving its cost savings goals on behalf of its Clients.

5.4 Transitioning assets can be a complex and lengthy process. In order to ensure that Clients are transitioning their assets into the LGPS Central Pool in the most cost effective and efficient manner, the appointment of external Transition Advisers and Transition Managers has been adopted. Pre and Post-Transition analysis is available to all Clients as a result.

6.o PRODUCT DEVELOPMENT PROTOCOL

6.1 In close collaboration with its Partner Funds, LGPSCL has introduced a Product Development Protocol to support new product launches. This helps to ensure that the products which are developed meet the investment needs of the Company's Clients.

6.2 The Product Development Protocol is a 9-phase process which includes 9 "touch points" that involve close engagement between LGPSCL and its Clients.

6.3 The Product Development Cycle can take between 6 to 9 months. The length of the cycle is dependent upon a number of fund characteristics such as whether it is Active or Passive, sits within an ACS or SLP structure, is managed in-house or externally etc.

6.4 There are currently 10 products that sit within the Product Development pipeline. The most advanced products, nearest launch, are Global Emerging Markets (Phase 8), Global Corporate Bonds (Phase 6), and the All World Climate Change Factor Based Fund (Phase 6). Other products in the pipeline include;

- Global Factor Based Strategy (Phase1)
- Multi Asset Credit (Phase 1)
- Emerging Market Debt (Phase1)
- Targeted Return (Phase1)
- UK Active Equity (Phase2)
- Private Equity, 2019 Vintage (Phase 3)
- Infrastructure (Phase 4)

7.0 RESPONSIBLE INVESTMENT & ENGAGEMENT

7.1 LGPSCL works in partnership with a number of organisations who share its values in respect of Responsible Investment & Engagement

7.2 There are 4 Key RI& E Themes for 2019/20. These are;

- Climate Change
- Technology & Disruptive Industries
- Single Use Plastics
- Tac Transparency

8.0 Conclusion

8.1 Good progress is being made -but there is plenty still to do!

8.2 Progress would not have been possible without the collaborative support of all LGPSCL's Partner Funds / Clients

8.3 LGPSCL goals continue to be to save costs for our Clients, but not at the expense of investment performance

8.4 LGPSCL's business model is based upon economies of scale. Greater benefits can be achieved by Partner Funds the sooner, and the greater, the amount of investment assets are transferred into the LGPS Central Pool.