



**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**WEDNESDAY, 24 JANUARY 2024**

**Report of the Director - Finance and ICT**

**Local Government Pension Scheme Investment Pooling**

**1. Purpose**

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

**2. Information and Analysis**

**2.1 Background**

- 2.1.1 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.
- 2.1.2 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 LGPS Investment Pooling Consultation**

2.2.1 The publication of the investment pooling consultation from the Department for Levelling Up, Housing and Communities (DLUHC) 'Local Government Pension Scheme (England and Wales): Next steps on investments' was reported to Committee in September 2023. Matters expected to be included in the Pension Fund's response to the consultation were highlighted in the Committee report.

The Fund's final response, which was agreed by Mark Kenyon, the Director of Finance & ICT, and Councillor David Wilson, the Chair of the Pensions and Investments Committee, on behalf of Derbyshire County Council as the administering authority of the Pension Fund, was subsequently circulated to members of the Committee and to members of Derbyshire Pension Board.

The government's response to the pooling consultation was unexpectedly published at the time of the Autumn Statement in November 2023 and concluded that the government will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management, and not pooled and the rationale, value for money and date for review if not pooled
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan

- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity
- amend regulations to require funds to set objectives for investment consultants and correct the definition of investment in the 2016 investment regulations

2.2.2 The government has committed to working closely with the LGPS Scheme Advisory Board (SAB) and the relevant committees of the SAB to develop changes to regulations and revised guidance on investment strategy statements, pooling, governance and annual reports.

More widely, the government set out its intention to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance.

2.2.3 Officers will be discussing the government's response with the other Partner Funds in the LGPS Central Pool and with LGPS Central Limited, the pooling company, in the Moving Pooling Forwards in Collaboration forum and more widely with other LGPS funds.

**2.3 LGPS Central Limited Strategic Business Plan & Budget 2024/25**  
Partner Funds are currently considering the LGPSC Strategic Business Plan & Budget 2024/25 (Strategic Plan) which is expected to be presented to shareholders for approval at the Company's General Meeting on 27 February 2024. Mark Kenyon, the Director of Finance & ICT, will represent Derbyshire County Council at the General Meeting and will vote on the Company's resolutions.

Partner Funds discussed their ongoing/future requirements with LGPSC in September 2023. LGPSC circulated the Strategic Plan to Partner Funds at the start of December 2023 and attended a meeting of the Shareholders' Forum shortly afterwards to present its high level strategic outlook for the Company, taking into consideration the recently published government response to the pooling consultation.

Partner Fund officers are currently considering requested additional information on the Strategic Plan provided by LGPSC.

## 2.4 Recruitment of the Chief Executive Officer

2.4.1 The recruitment of a new Chief Executive Officer for LGPSC is ongoing. Representatives of the Shareholders' Forum will meet the Board's preferred candidate as part of the recruitment process.

## 2.5 LGPS Central Pool Joint Committee

2.5.1 The next meeting of the LGPS Central Joint Committee is due to be held on 2 February 2024 at the offices of Leicestershire County Council. Councillor Wilson will be representing the Fund at the meeting which will include presentations on the performance of LGPS Central Limited's products and stewardship activities.

## 2.6 Investments in Collaborative Arrangements

2.6.1 At the end of December 2023, the Fund had the following investments in LGPSC vehicles:

	<b>£m</b>
LGPS Central Global Active Corporate Bond Fund	363
LGPS Central All World Equity Climate Multi Factor Fund	341
LGPS Central Emerging Mkt Equity Active Multi Manager Fund	171
LGPS Central Global Sustainable Equity Broad Strategy Fund	65
LGPS Central Global Sustainable Equity Targeted Strategy Fund	111
LGPS Central Credit Partnership II LP	50*
	<b>1,101</b>

\* Based on commitment.

In addition to the assets managed by LGPSC, the following assets were managed through collaboratively procured arrangements/subject to an aggregated LGPS fee rate:

	<b>£m</b>
RBC Global Equity Focus Fund	393
LGIM MSCI World Low Carbon Target Index Fund	826
LGIM UK Equity Index Fund	709
LGIM Japan Equity Index Fund	231
LGIM Emerging Markets Equity Fund	95
JP Morgan International Infrastructure Fund	150
	<b>2,404</b>

2.6.2 The percentage of total Fund assets currently invested in LGPSC products and via other collaboratively procured arrangements is 56%, which represents good progress in the transition to pooled investment arrangements.

2.6.3 Due diligence is also currently being carried out on the LGPS Central Global Sustainable Equity Thematic Strategy Fund, LGPS Central Global Low Carbon Multi Factor Equity Index Fund, LGPS Central Global Multi-Asset Credit Fund and LGPS Central Primary Private Equity 2024 Fund. Fund officers are also contributing to the development of the mandate for LGPSC's proposed indirect residential property fund.

## **2.7 LGPS Central Pool Cost Sharing Arrangements**

2.7.1 A review of the cost sharing arrangements of the LGPS Central Pool is currently being undertaken six years on from the agreement of the original arrangements.

## **3. Implications**

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

## **4. Background Papers**

4.1 Papers held by the Pension Fund.

## **5. Appendices**

5.1 Appendix 1 – Implications

## **6. Recommendation(s)**

That Committee:

a) notes the contents of the report.

## **7. Reasons for Recommendation(s)**

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

**Report Author:** Dawn Kinley

**Contact details:** dawn.kinley@derbyshire.gov.uk

## **Implications**

### **Financial**

- 1.1 All costs associated with investment pooling are met by the Pension Fund.

### **Legal**

- 2.1 The Director of Finance & ICT, or his nominee, has delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPS Central Limited.

### **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.