

Agenda Item No. 4 (c)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

9 December 2020

Report of the Director of Finance & ICT

LOCAL GOVERNMENT PENSION SCHEME INVESTMENT POOLING

1 Purpose of the Report

To update the Committee on progress in respect of Local Government Pension Scheme (LGPS) investment pooling, the development of LGPS Central Limited (LGPSC/the Company), and the plan for the transition of Derbyshire Pension Fund (the Fund) assets into LGPSC pooled products.

2 Information and Analysis

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 the investments on behalf of the pool (the Pool) of the eight LGPS funds across the Midlands, administered by the authorities listed above, with combined assets under management of around £50bn at 30 June 2020. These eight LGPS funds are referred to in this report as the Partner Funds.

2.1 Joint Committee

The Joint Committee is a public forum for the Councils within the Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the Pool's business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and recommendations to the individual Councils within the Pool and last met virtually on 14 November 2020. The Vice-Chair of the Pensions &

Investments Committee represented the Fund, and the Director of Finance & ICT and the Head of Pension Fund attended as observers.

This meeting included an update from the Practitioners Advisory Forum, presentation of a summary of the Pool's Risk Register and an LGPS Central Performance Update from the Company.

A large number of public questions were submitted to the Joint Committee. Questions were asked about: the LGPS Central Ltd All-World Equity Climate Multi-Factor Fund; investments in fossil fuel stocks; investments in sustainable assets; the LGPS Central Ltd Climate Risk Reports; Environmental, Social and Human Rights issues; reporting of engagement activities; and ethical investment. The public questions and the answers provided will be included with the minutes of the meeting.

A link to the Joint Committee papers can be found on the Fund's website: www.derbyshirepensionfund.org.uk/about-the-fund/investments/lgps-central-pool.aspx

2.2 Shareholders' Forum & Company Shareholders' Meetings

The primary role of the Shareholders' Forum is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the Shareholding Councils within the Pool. The Shareholders' Forum is independent of the Company and its meetings are distinct from Company meetings, however members of the Shareholders' Forum also represent the Councils at Company meetings. The Fund's representative on the Shareholders' Forum is Peter Handford, the County Council's Director of Finance & ICT who has delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPSC.

The last Shareholders' Forum meeting was on 8 September 2020 and focused on briefing the members ahead of the Company's Annual General Meeting (AGM) on the same day. At the Company's AGM the following resolutions were put forward by the Company:

	Resolution	Fund Vote
1	To approve the adoption of Company Report and Accounts for the year ended 31 March 2020.	For
2	To approve the reappointment of Deloitte LLP as external auditor of the Company	For
3	Authorisation of the Board to agree the external Auditor's remuneration.	For
4	To approve the re-election of Joanne Segars as a Director of the Company.	For
5	To approve the re-election of Eithne McManus as a Director of the Company.	For
6	To approve the re-election of Susan Martin as a Director of the Company.	For

7	To approve the re-election of John Nestor as a Director of the Company.	For
8	To approve the re-election of Mike Weston as a Director of the Company	For
9	To approve the re-election of John Burns as a Director of the Company.	For

The Director of Finance & ICT voted for each of the resolutions, and each resolution was unanimously passed by the Company's shareholders.

2.3 2020 Cost Savings Model

The Partner Funds, in collaboration with LGPSC, have recently updated the Pool's Cost Savings Model. The Cost Savings Model forecasts the expected net savings from LGPS investment pooling between 1 April 2018 and 31 March 2034.

The 2020 Cost Savings Model was prepared by updating the assumptions used in the 2017 Cost Savings Model (the cost savings model developed before the launch of the Company on 1 April 2018) to reflect the latest position, including:

- actual assets under management at 30 June 2020
- forecast asset allocation changes to 31 March 2024
- actual baseline 2017/18 investment management fees
- updated expectations in respect of the Company product offering
- actual transition cost to date and updated forecasts thereafter
- updated operating cost forecasts for the Company

The 2020 Cost Savings Model forecasts total cumulative net cost savings of £269m between 2018-19 and 2033-34, £21m higher than the £248m forecast by the 2017 Cost Savings Model. The higher net savings reflect a combination of greater investment manager fee savings (some of which are generated by the Partner Funds using their collective purchasing power as the investment management community has responded to pooling), partly offset by higher than forecast Company operating costs.

A bridge showing the high-level movements between the 2017 and 2020 Cost Savings Model is set out at Appendix 1.

Whilst the overall Pool savings have increased by £21m, there were several sizeable changes at a Partner Fund level. The Fund's forecast net cost savings fell from £56m in the 2017 Cost Savings Model to £38m in the 2020 Cost Savings Model. The forecast reduction largely reflects the impact of strategic asset allocation changes.

2.4 Taking Pooling Forward

Recognising it is around four years since the initial proposals for the Pool were agreed and that the Company has been in operation for over two years, the Partner Funds and LGPSC agreed that it was an appropriate time to take stock of progress to date. Three joint working groups were established over the summer to discuss:

- the future asset roadmap for the Pool
- to reflect on the operation of existing governance arrangements
- to further enhance relationships

The working groups were made up of Partner Fund S151 officers/Director of Pensions along with senior pension fund officers. LGPSC was represented on each group by members of the Company's Board. The working group discussions are coming to fruition and initial outcomes include:

- Reaffirmation that all eight Partner Funds have a common vision to invest assets through the Company and work through a roadmap of how this is delivered reflecting changing strategic investment priorities
- Creation of a decision tree to aid synergies and cost benefits delivered through the investment product development process in supporting Partner Fund Strategic Asset Allocations
- Consensus that Partner Funds' roles and responsibilities as client and shareholder could be more clearly articulated in the way pooling business is governed and managed
- Recognition that good relationship management is key to successful working and the delivery of investment pooling. With the initial focus understandably on setting up the legal and technical structures needed to launch the Company, going forwards the way Partner Funds and the Company work together will be increasingly important to deliver pooling

Any working group recommendations will be taken forward jointly with updates provided to the Joint Committee and the Shareholders' Forum. These will also be reported to this Committee through ongoing Investment Pooling Update reports.

2.5 Fund Transitions and LGPSC Investment Performance

Following the completion of successful due diligence, the Fund transitioned its legacy UK corporate bond portfolio of around £300m into LGPSC's Global Active Investment Grade Bonds Multi-Manager Sub-Fund in February 2020.

Since inception to 31 October 2020 the Sub-Fund has outperformed, returning 15.8%, 82 basis points higher than its Target (benchmark plus 70 basis points). This has partially reversed the underperformance experienced during the transition period.

The In-house Investment Management Team (IIMT) is currently carrying out due diligence on several other LGPSC products.

2.6 LGPSC Product Launches

Since the last pooling update report to Committee in July 2020, there have been no new LGPSC product launches. LGPSC expects to launch several new products over the next three to six months, including products to cover Multi-Asset Credit; Emerging Market Debt; Targeted Return; Infrastructure; and Direct Property. The IIMT continues to actively engage with LGPSC and other Partner Funds about product development and is assessing the suitability of these products for future use.

2.7 LGPSC Staffing and Retention

Since the last pooling update report, LGPSC has now successfully recruited two key vacant positions in respect of a Head of Private Markets and a Director of Responsible Investment & Engagement. Ian Brown, the new Head of Private Markets joined the Company in September 2020 and is scheduled to meet the IIMT in December 2020. Patrick O'Hara, the new Director of Responsible Investment & Engagement is scheduled to join the Company in January 2021.

3 Financial Considerations

As noted above, the Pool's Cost Savings Model has recently been updated to reflect current transition plans, current fee assumptions and forecast LGPSC costs. It is likely that the cost sharing arrangements will be reviewed at some stage in the future to ensure that they are equitable in practice. The 2020 Cost Savings Model indicates that the Fund will generate total cost savings of £38m between 1 April 2018 and 31 March 2034. The forecast cost savings are extremely sensitive to changes in relative performance, either positive or negative, and it remains critical that the focus on achieving savings in managers' fees does not have a detrimental impact on relative performance.

4 Other Considerations

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

5 Officer's Recommendation

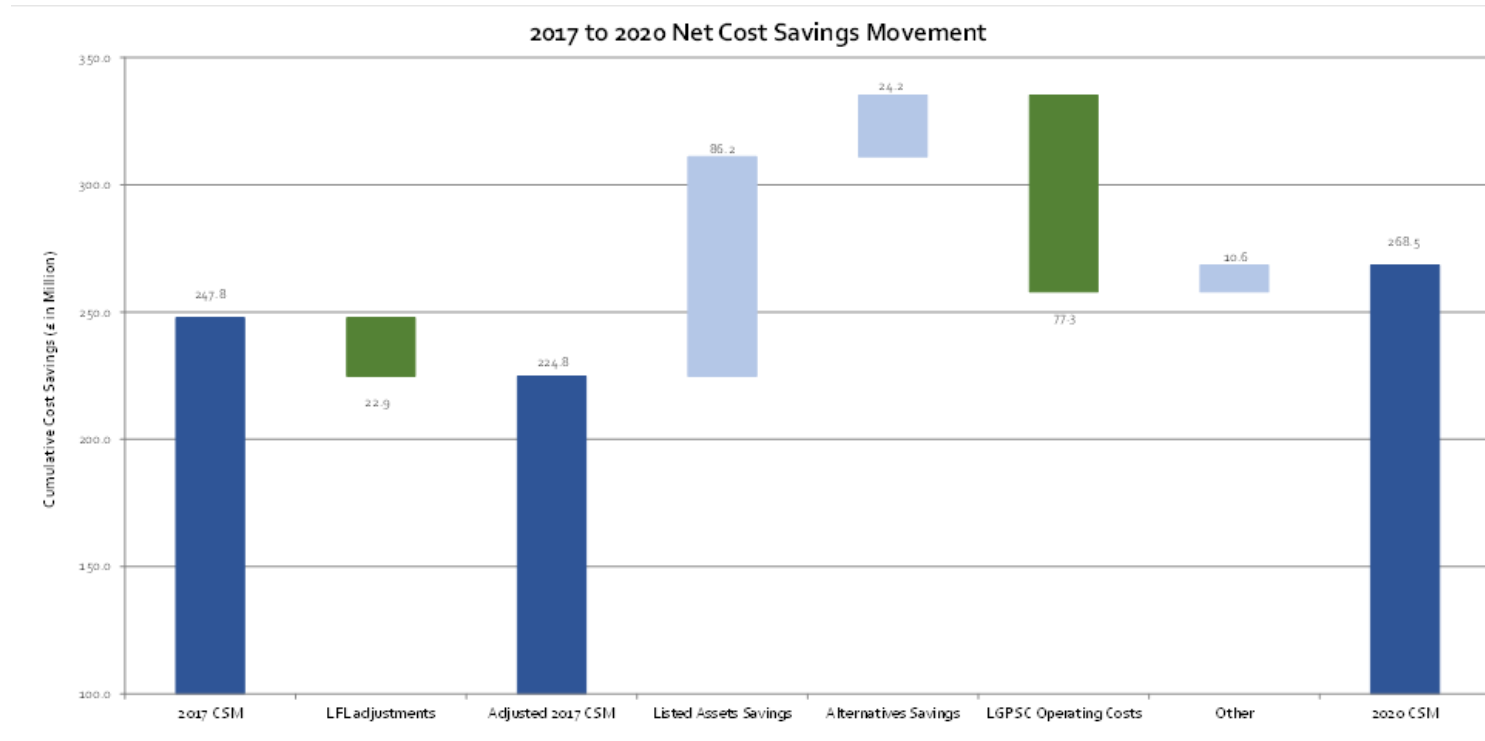
That Members note the contents of the report.

PETER HANDFORD

Director of Finance & ICT

Appendix 1: 2017 to 2020 Cost Savings Model Net Savings Bridge

The bridge below shows the high level movements in net cumulative costs savings between the 2017 Cost Savings Model (£248m) and 2020 Cost Savings Model (£269m).



Several Like-for-Like (LFL) adjustments have been made to the 2017 Cost Savings Model to ensure consistent treatment between the 2017 and 2020 Cost Savings Models. After taking account of these LFL adjustments, which reduce the forecast level of savings in the 2017 Cost Savings Model by £23m to £225m, the 2020 Cost Savings Model forecasts that cumulative cost savings between 2018/19 and 2033/34 will be £44m higher than those forecast by the 2017 Cost Savings Model.