

FOR PUBLICATION
DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE

21 July 2021

Report of the Director of Finance & ICT

Local Government Pension Scheme Investment Pooling

1. Purpose of the Report

To update the Committee on the Fund's participation in the LGPS Central Pool (the Pool), the products launched by the Pool's pooling company, LGPS Central Limited (LGPSC/the company), and the plan for the transition of Derbyshire Pension Fund (the Fund) assets into LGPSC and collaboratively procured products.

2. Information and Analysis

Legislative Background

The Local Government Pension Scheme (LGPS) is one of the largest funded defined benefit schemes in the world, with over 16,300 employers, over 6.2 million members and with combined assets of around £276bn at 31st March 2020. The LGPS is managed by 87 local administering authorities who historically maintained separate arrangements for the management of scheme assets, overseen by their respective pension committees.

In the wake of Lord Hutton's 2011 report on public sector pensions, the Government issued a 'Call for evidence on the future structure of the Local Government Pension Scheme' in June 2013, followed by a consultation in May 2014: 'Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies'. The Government subsequently issued its criteria for investment pooling in November 2015: 'Government Pension Scheme: Investment Reform Criteria and Guidance' which set out four headline criteria:

- Asset pool(s) that achieve the benefits of scale (assets of c.£25bn)
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity to invest in infrastructure

Administering authorities were asked to submit their initial pooling proposals to the Government in February 2016, with refined and completed submissions to be submitted by mid-July 2016, and a target implementation date of 1 April 2018.

Alongside the pooling criteria, the Government published draft 'Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016' (2016 Investment Regulations) which included powers for the Secretary of State to intervene if an administering authority did not formulate an investment strategy in accordance with guidance issued by the Secretary of State. The approach of authorities to pooling investments, including the use of collective vehicles and shared services, was included within the guidance, making it clear that investment pooling was regarded by the Government as mandatory. The final 2016 Investment Regulations came into effect in November 2016.

In early 2019, the Ministry for Housing, Communities and Local Government issued a consultation on proposed updated asset pooling guidance. The guidance included an expectation that existing assets should be transitioned into the pool as quickly and cost effectively as possible, whilst noting that pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. This may include life insurance contracts (life funds) accessed by pool members for the purpose of passive investment and some infrastructure investments. The proposed guidance also noted that pool members may also retain the management of existing direct property assets where these may be more effectively managed by pool members. The Fund submitted a response to the consultation which closed at the end of March 2019; the government's response to the consultation is still awaited.

LGPS Central Pool

In February 2017, it was agreed that Derbyshire County Council (the Council) would enter into an Inter-Authority agreement between Cheshire West and Chester Council, Derbyshire County 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 2016 Investment Regulations; to be overseen by a Joint Committee established under s102 of the Local Government Act 1972.

LGPS Central Ltd has been established to manage investments on behalf of the pool of the eight Local Government Pension Scheme (LGPS) funds (collectively known as the Partner Funds) across the Midlands administered by the authorities listed above. The Company received authorisation from the Financial Conduct Authority in January 2018 and launched its first products in April 2018.

The company has, to date, launched the following products:

- April 2018: UK Passive Equity, Global Ex-UK Passive Equity, & Global Equity Dividend Growth Factor Funds
- January 2019: Private Equity 2018 Co-Investment Fund
- January 2019: Private Equity 2018 Primary Fund
- March 2019: Global Equity Active Multi-Manager Fund
- July 2019: Emerging Markets Equity Active Multi-Manager Fund
- October 2019: All World Equity Climate Multi Factor Fund
- March: 2020 Global Active Investment Grade Corporate Bond Multi-Manager Fund
- December 2020: Global Active Emerging Market Bond Multi-Manager Fund
- January 2021: Global Multi-Factor Fund
- April 2021: Global Active Multi-Asset Credit Multi-Manager Fund
- April 2021: Infrastructure Fund
- May 2021: Private Debt Fund

The following products are forecast to be launched during 2021:

- Private Equity Fund
- Targeted Return Fund
- Sustainable Equity Fund
- Property Fund

Asset Transition

The Fund currently has approximately £580m invested in LGPSC products via the Emerging Market Equity Multi-Manager Fund and the Corporate Bond Multi-Manager Fund, representing approximately 10% of total Fund assets under management (AUM). A further 38% of AUM is currently invested in other collaboratively procured vehicles/life policies, with around 4% invested in direct property and around 9% invested in legacy alternative illiquid investment vehicles in unwind, and almost 6% held in cash.

Due diligence is currently being undertaken on the LGPSC Climate Multi Factor Fund, the Private Debt Fund, and the Infrastructure Fund and will be undertaken on the Sustainable Equity Fund in due course.

Based on the Fund's current asset allocation, it is expected that by 2025, around 80% of the Fund's assets will be invested in either LGPSC products or in other collaboratively procured vehicles/life policies, with the balance made up of investments in direct property, remaining legacy alternative illiquid assets in unwind, renewable infrastructure and cash.

The forecast transition plan is contingent on the Fund's future asset allocation, and satisfactory due diligence on the relevant products.

Company Presentation

The Chief Executive Officer and Director of Responsible Investment & Engagement of LGPS Central Ltd are attending Committee today; the company's presentation is attached at Appendix 2.

3. Implications

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

4. Background papers

Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications.

5.2 Append 2 – LGPS Central Limited Presentation

6. Recommendation

That Members note the contents of the report.

7. Reason for recommendation

One of the roles of Committee is to oversee the Pension Fund's involvement in investment pooling. The receipt of regular update reports enables Committee to fulfil this role.

Peter Handford
Director of Finance & ICT

Appendix 1

Implications

Financial

1.1 The Fund is currently expected to generate total cost savings of £38m from investment pooling between 2018-19 and 2033-34, including savings generated by investing in LGPSC products and savings generated by the Fund's involvement in collaborative purchasing arrangements with other Partner Funds within the LGPS Central Pool.

Whilst cost savings are an important consideration for investment pooling, net investment performance (performance less costs) will ultimately determine the financial success of pooling.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

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

7.1 None