LGPS Central Joint Committee
Minutes of the meeting held on Friday 11 November 2022
Virtual Meeting – Publicly accessible

Present:
Councillors: Hogg (**Chair**) (Cheshire), Barkley (Leicestershire), Jaspal (West Midlands), Kerry (Nottinghamshire), Sutherland (Staffordshire), Wilson (Derbyshire)
Scheme Member Representative: Malcolm Cantello (**MC**), Unison

Other Attendees:
Partner Fund officers: Justin Bridges (Shropshire), Rachel Brothwood (West Midlands), Karendeep Darwet (Partner Fund Support Office), Rachel Howe (West Midlands), Bhulesh Kachra (Leicestershire), Dawn Kinley (Derbyshire) (**DK**), Keith Palframan (Nottinghamshire) (**KP**), Hayley Reid (West Midlands – Clerk), Neil Smith (Derbyshire) (**NS**), Melanie Stokes (Staffordshire), Steve Wilcock (Cheshire), Rob Wilson (Worcestershire) (**RW**)
LGPS Central Ltd (LGPSCL): John Burns (**JB**), Mark Davies (**MD**), Mike Gillespie (**MG**), Anne-Marie Patterson (**AP**), Patrick O'Hara (**PO'H**), Gordon Ross (**GR**), Joanne Segars (**JS**), Mike Weston (**MW**)
Scheme Advisory Board: Jeremy Hughes (JH)
Observer: None

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1 MEETING PROTOCOL

1.1 The Clerk explained the virtual meeting protocol that would apply to the meeting and advised that a recording of the meeting would be made available online in the next week.

2 ELECTION OF THE CHAIR AND VICE CHAIR

2.1 Cllr Hogg and Cllr Barkley were formally voted in as the Joint Committee Chair and Vice Chair respectively.

3 WELCOME AND INTRODUCTIONS

3.1 The Chair explained that West Midlands were providing clerking the meeting to avoid any risk of Cheshire breaching purdah rules ahead of the forthcoming Chester City by-election.

4 APOLOGIES FOR ABSENCE

4.1 It was noted that apologies had been sent by Cllr Biggins (Cheshire) and Cllr Eyre (Worcestershire).

5 DECLARATIONS OF INTEREST

5.1 MC declared his interest in Unison as an outside body interest. There were no other declarations of interest.

6 MINUTES

6.1 **DECIDED:** That:

6.1.1 the minutes of the Committee's meeting held on 23 June 2022 be received; and

6.1.2 there were no matters arising or clarifications required from the minutes.

7 PUBLIC QUESTION TIME/OPEN SESSION

7.1 One member of the public had submitted a written question prior to the meeting in the period prescribed under the public questions protocol adopted by the Committee.

7.2 The question was read out by the Chair and a response was read out by the Clerk on behalf of the Committee. A copy of the question and response is set out in the appendix to these minutes.

8 SCHEME ADVISORY BOARD UPDATE

8.1 Members received a presentation from JH on behalf of the Scheme Advisory Board (SAB), with an overview of key matters that SAB are working on at present.

8.2 In relation to investment matters:

8.2.1 SAB will be responding to the Department for Levelling Up, Housing and Communities (DLUHC) consultation on climate risk reporting. The response is likely to be in public domain in next couple of weeks. SAB is, in particular, seeking clarification as to how the reporting duty will affect administering authorities' fiduciary duty. JH explained that the Law Commission has issued guidance for trust-based schemes, but it is acknowledged that LGPS schemes are slightly different and DUHLC's guidance would be welcomed;

8.2.2 SAB is planning to refresh its code of transparency which looks at investment costs. The online tool that SAB launched in 2019 is being updated so that data can be collected from investment managers quarterly rather than annually. SAB will also be looking at more promotion around the code of transparency and investment costs;

8.2.3 SAB had been expecting DHLUC's consultation on next steps for pooling. This is now expected early next year. It is anticipated that there will be an increased focus on local investment by funds, in line with the Levelling Up white paper which proposed a 5% local investment ambition for LGPS funds. SAB is engaging with DHLUC to get clarification on what would count as local investment and how it relates to other investments, eg infrastructure;

8.3 Other matters with which SAB is involved include:

8.3.1 Cost management – the judicial review of the 2016 cost management process is still ongoing, with a hearing due in January 2023 in relation to the treatment of McCloud costs. In addition, the 2020 cost management data has now been collated and GAD is now in the process of setting assumptions;

8.3.2 Reporting – SAB is reviewing statutory guidance around funding strategy statements and annual reports as there is a view that statutory reporting of funds is not appropriate for its target audience and may need to be rationalised

8.3.3 Benefits – SAB is looking to pursue with DHLUC what, if anything, is happening with the extension of Fair Deal to local authorities;

8.3.4 Opt-outs – SAB has noted a long-term increase in the number of members opting out of LGPS, particularly those with over 2 years' service. Those most affected appear to be predominantly younger and lower paid members and SAB will be considering whether any action can be taken to address this.

9 PRACTITIONERS ADVISORY FORUM UPDATE

9.1 Members received a report from KP updating them on the work of the LGPS Central Practitioners Advisory Forum (PAF). KP drew members' attention to work recently undertaken by PAF, set out in paragraph 4.1 of the report, as well as PAF's anticipated activity in the coming months, set out in paragraph 4.2 of the report.

9.2 In relation to scheme asset allocation, KP confirmed that PAF's role was to understand what assets partner funds required to meet their individual strategic asset allocation, and to work with LGPS Central Ltd to ensure that the company was providing the appropriate products.

9.3 **DECIDED:** That the Practitioners' Advisory Forum report be noted.

10 POOL RISK REGISTER

10.1 Members received a report from RW on the Pool Risk Register noting that the register relates to the Investment Pool in its widest sense and is not a reflection of the risk assessment of either LGPSCL or individual Partner Funds, as assessed by the Practitioners Advisory Forum in conjunction with LGPSCL.

10.2 The committee noted that the Regulatory risk would necessarily remain high, notwithstanding any controls put in place, as regulatory change is outside the Pool's control.

10.3 **DECIDED:** That the Investment Pool Risk Register report be noted.

11 LGPS CENTRAL UPDATE

11.1 Members received a presentation from LGPSCL on the company's investment and Client Key Performance Indicator (**KPI**) performance in the period to September 2021.

11.2 JS provided an overview on key themes for 2022/23, being fund performance, recruitment and retention, business maturity and the future. In particular, JS explained that the company's focus would shift from adding new funds and looking 12 months ahead, to a state of business as usual and looking further into the future.

11.3 GR gave an update on investment performance. It was noted that current conditions were particularly challenging and extremely unusual as both equity and debt markets were down simultaneously. MC queried what MAC (page 33 of the meeting pack) meant, and GR explained that this was Multi-Asset Credit, being a fund that can invest into any fixed income assets.

11.4 MG reported on private markets. He explained that private equity values normally lagged behind public markets, so values may fall over the next quarter. Members asked whether the opportunity for private debt funds to increase market share as banks continue to retrench was an opportunity or a threat. MG explained that market conditions meant that this was an opportunity for private debt funds to acquire private credit at a discount, but such debt is usually document-light and covenant-light, so carries an inherent security risk. The risk to LGPS Central would be if its fund managers invested in those funds and the security risk therefore passed upwards to LGPS Central, but this is not expected to occur. MG also confirmed that the difficult economic conditions would likely lead to some corporate borrowers defaulting and this would result in a reduction in debt values.

11.5 PO'H gave an update on Responsible Investment & Engagement. He explained that the Mercer Climate Scenario Analysis now includes a 1.5 degree analysis, which had not been possible before. PO'H explained that LGPSCL want to make sure that its Climate Risk Reporting remains an exemplar, so will be looking to see if this can be enhanced going forwards.

11.6 Members were reminded that LGPSCL had made a Net Zero by 2050 commitment on behalf of the Pool earlier in the year and were informed that, while the first half of the year had been difficult, the second half had seen good Net Zero progress. Members asked whether LGPSCL's investment managers were aligned with the Net Zero Target. PO'H explained that the managers were not resistant, but he would expect managers to be aligned as a lot of due diligence was done on them before their appointment. LGPSCL will be putting reporting requirements in place in the future to show how portfolios are progressing towards the Net Zero target.

11.7 Members noted that it was pleasing that human rights was included as a core engagement theme and requested further details. PO'H explained that, before investing, LGPSCL would expect companies to have appropriate audits of their supply chain facilities and also recommends unannounced audits.

11.8 MW provided an overview of LGPSC's priorities for the next year, being investment performance, staff turnover, and the 2023/24 Business Plan and Budget. It was noted that turnover of staff is not sustainable at current levels and there was discussion about the reasons for this and the actions being taken by the company to address the problem.

The public section of the meeting then ended.

APPENDIX

Item 7: Public Questions

<u>**Question 1: received 02/11/2022 from D Plunkett**</u>

At the end of FY 2020/2021 the eight partner funds comprising LGPS Central had transitioned only 25% of their assets to LGPS Central, which was the lowest percentage nationally, and DLUHC data shows the other seven pools had received over 50% from their partner funds, and that two pools that had received 100%.*

Can LGPS Central please explain this low level of 25% for FY 2020/2021, and were transition levels for the latest full FY 2021/2022 more in-line with (rising) national averages.

(*Source DLUHC, FY 2020/2021: Access 57%, Border 56%, Brunel 61%, Central 25%, LPP 100%, London 53%, Northern 100%, Wales 68%).

<u>**Response**</u>

As noted in response to a similar question submitted to the Joint Committee on 14 January 2022, comparisons between pools should be treated with caution, as the very different pooling models make like-for-like comparisons difficult.

The investment pool was established with the express purpose of managing Partner Fund pension scheme assets in a collective manner, to achieve the objectives of securing cost savings, improving governance, improving access to difficult to access asset classes, and increasing the level of investment into infrastructure. Partner Funds are also benefiting from other collaborative arrangements.

Partner Funds and LGPS Central Ltd have worked collaboratively to make sure that the products are the right ones that the Partner Funds wish to invest in now and going forward. A number of new investment products have been successfully launched in the past year, including a Sustainable Equity Fund and a number of additional private market partnerships. These have helped facilitate a significant increase in assets transitioned to the pool in 2021-22. As at end of March 2022, total assets under LGPS Central's stewardship (including partnerships at commitment value, discretionary and advisory mandates, in addition to sub-funds within the LGPS Central Ltd Authorised Contractual Scheme) stood at £28.5bn, equivalent to over 49% of total partner fund assets. Every active fund launched has contributed to overall cost savings and, as at the end of 2021, every active LGPS Central Ltd fund was performing ahead of its benchmark. Partner Funds have also benefitted from working closely with LGPS Central Ltd's Responsible Investment and Engagement team to develop climate risk reporting and enhanced company engagement activities.

The pace of pooling transitions within LGPS Central has gained momentum recently and there is every indication that pooled assets will grow significantly over the next year or two. Every effort will continue to be has been taken to develop sustainable products which enable Partner Funds to deliver their strategic asset allocation, which remains the responsibility of individual Partner Funds.