



Local Government Pension Scheme:
**Investment Reform Criteria
and Guidance**

**Submission of LGPS Central
for 15 July Deadline**

Attached is a published version of the submission that was made
by LGPS Central to DCLG



LGPS Reform,
Department for Communities and Local Government,
2/SE Quarter, Fry Building,
2 Marsham Street,
London SW1P 4DF.

15 July 2016

LGPSReform@communities.gsi.gov.uk

Dear Sir or Madam,

Local Government Pension Scheme: Investment Reform Criteria and Guidance

Further to the publication issued on 25 November 2015 regarding the Local Government Pension Scheme (LGPS) Investment Reform Criteria and Guidance and the initial response made to it in February 2016, attached herewith is the LGPS Central Investment Pool's business case and detailed proposals for investment pooling.

There are nine Participating Funds in the LGPS Central Investment Pool – Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands Integrated Transport Authority, West Midlands Pension Fund and Worcestershire. As at 31 March 2015, these Funds' portfolios were valued at £34 billion, with membership of 850,000 and 1,850 employers. All of the Participating Funds named above have approved the business case for the LGPS Central Investment Pool. A copy of the supporting resolution signed by them is attached herewith, together with a copy of a press release on investment pooling which we are publishing today.

I look forward to discussing our business case and proposals with you in the near future.

Yours faithfully,

Geik Drever
Programme Director, LGPS Central

Proposal for asset pooling in the LGPS – 15 July 2016



Name of Pool	LGPS Central
Participating Authorities	<ul style="list-style-type: none"> • Cheshire Pension Fund • Derbyshire Pension Fund • Leicestershire Pension Fund • Nottinghamshire Pension Fund • Shropshire County Pension Fund • Staffordshire Pension Fund • West Midlands Pension Fund (including the West Midlands Integrated Transport Authority) • Worcestershire Pension Fund

CRITERION A: ASSET POOLS THAT ACHIEVE THE BENEFITS OF SCALE

1 The size of the Pool once fully operational.

a) Please state the total value of assets (£bn) to be invested via the Pool once transition is complete (based on asset values as at 31 March 2015).	£32.6bn (excludes a cash holding for each Fund which is assumed to be held for operational purposes and bulk annuity buy-ins).
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2 Assets which are proposed to be held outside the Pool and the rationale for doing so.

- a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the Pool (once transition is complete, based on asset values at 31 March 2015).

Total value: £1,432m

Asset types:

- 1) Bulk annuity buy-ins related to West Midlands Integrated Transport Authority (WMITA) (£264m)
- 2) Cash for operational purposes (£1,168m)

b) Please attach an Annex for each authority that proposes to hold assets outside of the Pool detailing the amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money.	Attached as Annex number A 2(b)
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3 The type of Pool including the legal structure.

- a) Please set out the type of Pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.

The proposed structure of the LGPS Central Pool is summarised in Annex A 3(a) (i).

Key features include:

- 1) The formation of a Shareholders' Forum comprised of eight members (one representing each of the Participating Funds), plus an independent chair. The Shareholders' Forum will act as the Supervisory Body for the Pool, and the Shareholders' Forum for the Operator.
- 2) The Operator will be a jointly-owned, alternative investment fund manager (AIFM), regulated under the Financial Services and Markets Act (FSMA) 2000. This will be a separate legal entity, responsible for providing both internal and external investment management capability, and with contractual capacity to secure all investment services on behalf of the Pool.

- 3) The Operator will be incorporated as a private company, limited by shares held solely by the administering authorities and with at least 80% of its activities being the performance of tasks entrusted to it by those administering authorities. In order to meet the requirements of the Teckal exemption applicable to multi-contracting authority entities, the degree of control exercised by the shareholders will be greater than in a traditional company, in order to enable them to jointly exert decisive influence over strategic objectives and significant decisions of the entity.
 - 4) Legal ownership of Funds' assets will transfer to the collective investment vehicles set up by the Operator, with the Participating Funds retaining beneficial ownership, except for life policies (which will remain in the ownership of individual Funds, but will be managed and monitored by the Operator, on a collective basis) and the bulk annuity buy-ins which will be held outside the Pool and remain in the ownership of WMITA.
 - 5) The Operator will be responsible for providing a range of collective investment vehicles including an Authorised Contractual Scheme (ACS), which will also be authorised by the Financial Conduct Authority. The Operator may also provide unregulated collective investment vehicles, such as limited partnerships and unit trusts where these are deemed appropriate, for alternative assets.
 - 6) The Operator will be responsible for implementation of Investment Strategies including manager and mandate selection, and the Funds will be responsible for strategic asset allocation. The Operator will be accountable to the investors via the Shareholders' Forum and will also report directly to each Participating Fund on individual portfolio performance. A Practitioners' Advisory Forum will support the Shareholders' Forum and act as the day-to day liaison between the local authority pension funds and the Operator.
 - 7) The commitment of the participating Funds to these arrangements is evidenced by the attached Committee resolutions.
- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.
 - 1) The legal structure of the LGPS Central Pool is set out above. The Operator, as a company limited by shares, will be legally separate to the Funds, and is expected to be subject to corporation tax on its profits, although minimal profit is expected to be made. The Operator may also incur some VAT which it cannot recover, although this is a cost which will be currently incurred by investment managers, and is likely to be passed on to the Funds through the investment management fees paid.
 - 2) Regarding the assets, the ACS will hold listed equities and bonds. Legal ownership of the underlying assets lies with the depository, in accordance with the FCA rules and the beneficial ownership of these underlying assets remains with the Funds. The Funds will hold units in the ACS, instead of direct equities/bonds, or units in third party funds. The ACS should broadly provide the same tax answer for the investments as if the Funds had invested directly in the underlying assets. In some cases this may also bring some tax benefits, where the ACS is entitled to a lower rate of withholding tax than a pension fund directly, such as for investments in French equities. This has not been quantified as part of the savings at this stage. Further detail on the tax side can be found under no. 5 below.
 - 3) The life policies will be managed and monitored by the Operator on a collective basis. The legal and beneficial ownership, and tax profile, of the life policies should therefore be unaffected.
 - 4) Regarding alternative asset classes, the precise legal structure will depend on the specific assets, and is expected to be further developed during implementation. It is expected these may be unregulated, such as a limited partnership, where the Funds will legally own a partnership share. The structures will be selected with a view to avoiding additional tax cost or legal complexity.
 - 5) On the tax side, the ACS is a UK collective investment vehicle that is particularly tax efficient for UK tax exempt investors, including the Funds. The ACS is transparent for UK income tax purposes so they are not subject to income or corporation tax on their income. Instead, the investors are liable to tax where appropriate on their proportionate interest in the underlying income. The ACS's tax transparency is intended to allow investors in them to benefit from reduced rates of withholding tax under double tax treaties between each investor's own state and the state in which each investment is located. The position regarding capital gains realised on the disposal of investments by ACSs is similar, that is there is no tax in the fund itself.

However, for simplicity, UK taxpayers are taxed as if their interest in the fund was an asset for capital gains purposes (and not the underlying assets). ACSs also benefit from favourable UK stamp tax treatment (except for stamp duty land tax in authorised limited partnerships and, at the moment, in authorised co-ownership funds too, although this will change when the 2016 Finance Bill is enacted). They also benefit from exemption from VAT (value added tax) on their management fees like other UK authorised investment funds.

Given that other collective investment vehicles have not been selected yet, no tax information is provided on these. However, the selection of other vehicles will take into account their tax position and the Funds' existing tax exempt status.

- The composition of the supervisory body.

See 3a (1) above. In summary, there will be eight representatives from the Participating Funds with an independent chair.

Please confirm that all participating authorities in the Pool have signed up to the above. If not, please provide, in an Annex, the timeline when sign-off is expected and the reason for this to have occurred post-July submission date.

Attached as Annex number 3 (a)(ii)

4 How the Pool will operate, the work to be carried out internally and services to be hired from outside.

- Please provide a brief description of each service the Pool intends to provide and the anticipated timing of provision.

- a) To operate in-house (for example, if the Pool will have internal investment management from inception):

The following services will be provided internally by the Operator:

- 1) Investment management – the pool will contain a number of vehicles (for example, an ACS, limited partnerships) which will consist of internal and external managers. Where TUPE applies, staff employed by the Participating Funds will transfer into the Operator. It is envisaged that the internal investment function will be developed over time, with a view to securing significant savings.
- 2) Risk and Compliance will be managed as two separate functions in-house. It is expected that the Head of Risk and Head of Compliance will both be members of the Operator's senior management team and will report to the Chief Operating Officer (COO).
- 3) Detailed compliance monitoring will also be undertaken in-house.
- 4) Selecting and appointing outsourced providers.
- 5) Monitoring of outsourced providers – some staff will transfer into the Operator under TUPE, to supervise the outsourced functions and manage the risks associated with the outsourcing.
- 6) Internal audit (this may be co-sourced or outsourced, depending on internal capacity and skills, in order to provide sufficient rigour).
- 7) General administration, including obtaining and maintaining FCA authorisations, creating and maintaining key required documents (deeds, prospectuses, etc.), and the execution of relevant documents or contracts on behalf of the Operator.

- b) To procure externally (for example, audit services):

The following services will be procured externally by the Operator, in order to meet the required implementation timetable and to ensure that the Pool has access to appropriately skilled and experienced resources from inception.

- 1) Investment management services – although the number of managers and mandates is expected to be significantly reduced from current levels.
- 2) Asset servicer – a bundled arrangement providing depository, transfer agency, fund accounting (including pricing, valuation, corporate actions, trade processing, portfolio accounting, data provision and reporting) and custody services.

- 3) Company services – finance, payroll, human resources, facilities management, secretariat services and ICT support (these may be procured through a buy-back arrangement with one or more of the Participating Funds)
 - 4) External audit
 - 5) Professional advice – legal, tax, procurement, human resource services
 - 6) Investment advice – for example, consultancy/advisory, transition management
- Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the Pool.

LGPS Central has taken external advice from Deloitte and Eversheds to arrive at these service allocations; however, it is possible that there may be changes once the project commences in July 2016.

5 The timetable for establishing the Pool and moving assets into the Pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.

1) a) Please provide assurance that the structure summarised in 3 above will be in place by 1 April 2018 assuming: x, y and z (add caveats).

<p>Confirmed Yes If No, please state the expected date the structure will be in place and attach an Annex detailing the reasons for not being able to have the structure in place by 1 April 2018.</p>	<p>Anticipated date structure will be in place: N/A Reasons attached as Annex number</p>
<p>b) Please provide as an Annex a high-level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.</p>	<p>Attached as Annex number: A 5 (1b)(i) Project timetable (this Annex has been removed for confidentiality reasons) A 5 (1b)(ii) Key milestones A 5 (1b)(iii) Progress reporting</p>
<p>2) Please provide as an Annex an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31 March 2015).</p>	<p>Transition will be executed over a period of years</p>

3) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31 March 2015 and assuming no change in asset mix) to be held within the Pool at the end of each three-year period starting from 1 April 2018.

- 31 March 2021: £32.6bn
- 31 March 2024: £32.6bn
- 31 March 2027: £32.6bn
- 31 March 2030: £32.6bn
- 31 March 2033: £32.6bn

Total value of assets estimated to be held in ACS/other collective investment vehicle as at:

- 31 March 2021: £19.1bn
- 31 March 2024: £20.0bn
- 31 March 2027: £20.1bn
- 31 March 2030: £20.2bn
- 31 March 2033: £20.2bn

The forecast assumes that whilst indirect property, private equity, alternatives and life policies are managed by the Pool, they are held outside of the ACS, resulting in the gap between the total value of assets held in the Pool and those held in the ACS. The mechanism by which the Pool provides access to indirect property, private equity, alternatives and life policies going forward has yet to be finalised, and whilst not assumed in the forecast, there remains a possibility that some of these assets will also be managed within the ACS.

CRITERION B: STRONG GOVERNANCE AND DECISION-MAKING

1 The governance structure for their pool, including the accountability between the Pool and elected councillors and how external scrutiny will be used.

- a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.

The Supervisory Body will be a Shareholders' Forum, comprised of eight members (one representing each Participating Fund), plus an Independent Chair. The members will be elected representatives, typically the Chair of the Pension Fund Committee. The Independent Chair will provide stability and continuity, and ensure that the Committee operates in a cohesive and collegiate manner.

The Shareholders' Forum will also represent the shareholder interests of the Participating Funds. Their powers as Shareholders will be set out in a Shareholder Agreement. The degree of control to be exercised by the Shareholders through their reserve powers will be considered in the light of the requirements of the Teckal exemption, and with appropriate legal advice. The matters likely to be considered as reserve powers will include the following:

- Appointment and dismissal of Company Directors;
- Approval of the Company's strategic business plan;
- Approval of the Company cost base, budget and fee model;
- Approval of Executive remuneration (via the Company's Remuneration Sub-Committee);
- Approval of share capital changes, including issue or disposal of shares;
- Approval of significant transactions (for example, leases, guarantees, indemnities);
- Approval of any proposal to declare a dividend;
- Approval of any merger or acquisition of any business undertaking;
- Approval of any proposed programme of redundancies or staff relocation;
- Approval to extend the scope of the Company or to change its legal status;
- Approval to appoint or remove the auditors of the Company;
- Approval of any proposed capital expenditure;
- Approval of any proposed borrowing or taking out of loans;
- Approval of changes to the Company name, or registered offices.

The Shareholders' Forum will meet quarterly.

The Operator Board will be accountable to the Shareholders' Forum for operation of the ACS and the Company in general. It will also report to the Practitioners' Forum on wider investor issues, including investment performance, and receive advice from them in terms of investor requirements and strategy developments.

The Operator will also provide performance reports to individual funds and periodically, attend meetings with individual Pension Fund Committees.

The proposed structure of the Operator Board is set out in Annex A 3 (a) (i). There will be two Executive Directors and three Non-Executive Directors, one of whom will act as Chair. The three Non-Executive Directors will be 'independent', in accordance with the UK Corporate Governance Code, and one of the independent Non-Executive Directors will be available to the shareholders if they have issues or concerns that cannot be resolved through normal channels.

- b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the Pool (including the Pensions Committee and local Pensions Board).

The role of external scrutiny will be fulfilled by the following:

- The Depository function – this will be an outsourced function, providing oversight of the safekeeping of assets, unit pricing, dealing, income distribution, portfolio valuations, adherence to mandates, cash processing and fair treatment of investors.
- Internal and External Audit functions – will provide assurance to the shareholders in respect of internal control and compliance with statutory financial reporting requirements.
- Shareholders' Forum – will scrutinise the business plan, cost base and overall performance of the Operator Company in corporate governance terms.
- Pension Fund Committees

- Practitioners' Advisory Forum (PAF) – this will be made up of an officer/(s) from each Participating Fund (for example, the S151 officer and a pension fund officer) – to be determined by each Fund. The PAF will scrutinise the investment performance of the Operator, along with investment costs, customer service and delivery of wider investor services such as voting and responsible investment. They will also review risk management and compliance arrangements from an investor perspective.
- FCA – The Operator will have a compliance monitoring function which also monitors third party providers. The FCA has an overarching role as regulator to supervise the Operator.

2 The mechanisms by which authorities can hold the Pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long-term interests of their members.

a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, Pool and any supervisory body.

The following agreements will be in place to establish formal accountability between the Pool and the Participating Funds:

- **Shareholder Agreement** – this will set out the rights of the Participating Funds as owners of the Operator, and the matters which are reserved to the shareholders for decision, and which will therefore limit the discretion of the Operator. The key provisions are outlined in B1 above.
- **Articles of Association** – these will set out how the Company Board will operate, and establish procedures for dealing with matters such as director conflicts of interest. The Articles will effectively form the constitution of the Operator Company.
- **Deed and Prospectus** – these will form the main contract between investors and the Operator, setting out the key characteristics of the investment funds offered, the obligations of the Operator and the rights and obligations of the investors/Funds. This is a key mechanism by which the Funds would hold the Operator to account. The Funds would have the ultimate sanction of withdrawing from the collective investment vehicle. They would also have rights to vote on fundamental changes to the collective vehicle or its strategy. These documents would also deal with complaints procedures, etc.
- **Subscription** – this is part of the contract between the Funds and Operator for investing in the investment funds and includes areas such as data protection and anti-money laundering.

b) If available please include a draft of the agreement between any supervisory body and the Pool as an Annex.

Attached as Annex number
It is anticipated that the agreements listed in 2(a), will be prepared from July - December 2016, in consultation with a legal adviser.

c) Please describe briefly how that agreement will ensure that the supervisory body can hold the Pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

Holding the Pool to account

The agreements outlined in 2(a) will form the contract between the Shareholders' Forum and the Operator, setting out the obligations of the Operator and the rights and obligations of the investors. Once the Operator is operational, any required variations will need to be agreed by the Shareholders' Forum.

Reporting on implementation and performance

It is envisaged that the Operator will report back to authorities on the implementation and performance of their investment strategy through:

- An annual Investors AGM
- Monthly and quarterly reports (covering asset allocation, investment performance, voting, etc.)
- Attendance at Practitioners' and Shareholders' Forums, as well as at specific Pension Committee meetings (if required by individual funds)

3 Decision-making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the Pool level.

a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The following decisions will continue to be made by the Participating Funds:

- i) Strategic asset allocation and liability profiling and management
- ii) Funding and Contribution Strategy
- iii) Covenant review and management

The rationale for this being that they need to be set in relation to each authority's specific liability and cashflow forecast, together with the underlying covenant risk of sponsors.

It is also anticipated that initially, Funds will be able to choose between internal and external investment options offered by the Operator for specific asset classes. Once the internal investment team has established a performance track record, the Operator will make the decision as to whether to use internal or external investment resources, or a mixture of both. (Internal expertise may be available for some assets but not for others.)

b) Please list the decisions to be made at the Pool level and the rationale underpinning this.

The Operator will be responsible for the following decisions:

- i) Implementation of Investment Strategies including manager and mandate selection
- ii) Number and type of investment sub-funds
- iii) Number of managers to be appointed and manager selection
- iv) Manager oversight and monitoring
- v) Termination of manager contracts
- vi) Selection and investment of illiquid funds
- vii) Portfolio construction

The rationale for this being that expertise in these areas will sit within the Operator board and centralising decision making within the Operator, will better exploit synergies with other participating authorities' allocations and further drive economies of scale.

c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

The decisions to be made by the supervisory body/Shareholders' Forum are set out in 1(a) above.

4 The shared objectives for the Pool and any policies that are to be agreed between participants.

a) Please set out below the shared objectives for the pool.

The shared objectives of the pool are:

- i) to meet the investment objectives of the Participating Funds
- ii) to establish a collaborative platform through which administering authorities of the Participating Funds can aggregate their pension assets with a view to providing scale economies and improved investment efficiency
- iii) to develop internal investment management capabilities for the collective benefit of the Participating Funds, in order to provide wider investment choice and market competition
- iv) to create capacity to invest in asset classes which individual Funds may find difficult to access
- v) 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)
- vi) to act as a responsible, long term investor, using its influence as a shareholder to promote the highest standards of corporate stewardship
- vii) 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

b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

The participating Funds have jointly agreed a **Statement of Commitment** and a **Memorandum of Understanding** setting out how they intend to work together to meet the Government’s timetable and requirements for investment pooling. This includes arrangements for programme management, sharing of costs and decision making.

A joint **Communications Policy** and **Communications Strategy** has also been agreed, which sets out how key stakeholders will be communicated with and kept up to date on pooling developments and their likely impact.

A **Responsible Investment Framework** is also being developed, which defines the commitment of the pool to responsible investment principles and outlines the approach to be followed in integrating environmental, social and governance (ESG) considerations into investment decision-making.

Copies of these documents are attached for information.

Reporting and other relevant policies will be developed in the future.

<p>c) If available please attach as an Annex any draft or agreed policies already in place.</p>	<p>Attached as Annex number:</p> <ul style="list-style-type: none"> • B 4 (c)(i) Statement of Commitment • B 4 (c)(ii) Statement of Objectives • B 4 (c)(iii) Memorandum of Understanding (this Annex has been removed for confidentiality reasons) • B 4 (c)(iv) Communications Policy • B 4 (c)(v) Communications Strategy • B 4 (c)(vi) Responsible Investment Framework
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5 The resources allocated to the running of the Pool, including the governance budget, the number of staff needed and the skills and expertise required.

<p>a) Please provide an estimate of the operating costs of the Pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. Please include details of where new costs are offset by reduced existing costs.</p>	<p>Implementation costs: £3.3m</p> <p>Ongoing annual operating running costs: £5.2m, including estimated annual governance costs of £1.9m.</p>
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Assumptions

The estimate of implementation costs (i.e. set-up costs) and ongoing annual operating running costs have been built up on a category by category basis. A significant proportion of the costs relate to staff costs which have been built up on a bottom-up basis reflecting a phased recruitment approach.

The estimate of ongoing annual operating costs excludes any costs classified as investment management expense in respect of managing the Pool’s investment assets, whether internally or externally managed.

The majority of costs represent “new costs”, although a proportion of expenses relate to costs currently incurred at a Fund level (for example, the proportion of internal investment management staff costs not classified as an investment management expense, premises and information technology). These existing costs are estimated at around £1.0m per annum.

Regulatory capital is estimated at €10m, reflecting the capped maximum regulatory capital required under the Alternative Investment Fund Managers Directive (Directive 1011/61/EU).

Comments – See also assumptions in Annex C(3) (c) (this Annex has been removed as it is considered to be commercially sensitive)

a) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.	Implementation: The estimate assumes a phased build in headcount (to 57 heads by March 2018) over the set-up phase which is expected to run from July 2016 to March 2018. Ongoing: 57 heads
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6 How any environmental, social and corporate governance policies will be handled by the Pool. How the authorities will act as responsible, long-term investors through the Pool, including how the Pool will determine and enact stewardship responsibilities.

a) Please confirm there will be a written responsible investment policy at the Pool level in place by 1 April 2018.

Confirmed Yes If No, please attach an Annex setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.	Attached as Annex number B 4 (c)(vi)
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7 How the net performance of each asset class will be reported publicly by the Pool, to encourage the sharing of data and best practice.

a) Please confirm that the Pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

Confirmed Yes The Pool will publish details of its collective performance in each listed asset class on its website, as well as reporting via the websites of the Participating Funds; subject to appropriate consideration of commercial confidentiality. If No, please attach an Annex setting out how the Pool will report publicly on its performance.	Attached as Annex number
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8 The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the Pool.

a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the Pool.

Annex B 8 (a) attached outlines the benchmarking indicators and analysis which will be used by the Fund and the Pool.

CRITERION C: REDUCED COSTS AND EXCELLENT VALUE FOR MONEY

1 A fully transparent assessment of investment costs and fees as at 31 March 2013.

<p>a) Please state the total investment costs and fees for each of the authorities in the Pool as reported in the Annual Report and Accounts for that year ending 31 March 2013.</p>	<p>£66m</p>
<p>b) Please state the total investment costs and fees for each of the authorities in the pool as at 31 March 2013 on a fully transparent basis.</p>	<p>£181m</p> <p>A reconciliation between total investment costs reported in the Annual Reports and on a fully transparent basis for the year ended 31 March 2013 is set out at Annex C 1 (b).</p> <p>Reconciling items principally relate to a restatement to account for investment management expenses on pooled vehicles in accordance with CIPFA guidance "Accounting for Local Government Pension Scheme Costs".</p> <p>Please note that the assessment of total investment costs on a fully transparent basis includes performance fees on privately held assets (for example, private equity) and transaction costs. CEM are understood to exclude these costs for the purposes of their wider LGPS benchmarking review.</p>
<p>c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.</p> <p>A fully transparent assessment of investments costs and fees for the year ended 31 March 2013 has been prepared within the LGPS Central pooling project team based on information supplied by the individual Funds. The assessment includes transaction costs (with the exception of passive equity and property transaction costs), all internal management costs and embedded pooled vehicle expenses. Funds who have not been able to establish full layers of fees on alternatives fund of funds arrangements have assumed typical fee rates based on external benchmarking information.</p>	

2 A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.

<p>a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31 March 2015.</p>	<p>£168m</p>
<p>b) Please state the total investment costs and fees for each of the authorities in the pool as at 31 March 2015 on a fully transparent basis.</p>	<p>£196m A reconciliation between total investment costs reported in the Annual Reports and on a fully transparent basis for the year ended 31 March 2015 is set out at Annex C 2 (b). Reconciling items principally relate to a restatement to account for investment management expenses on pooled vehicles in accordance with CIPFA guidance "Accounting for Local Government Pension Scheme Costs". Please note that the assessment of total investment costs on a fully transparent basis includes performance fees on privately held assets (for example, private equity) and transaction costs. CEM are understood to exclude these costs for the purposes of their wider LGPS benchmarking review.</p>
<p>c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.</p> <p>The same assumptions have been made for preparing the fully transparent assessment of costs and fees for the year ended 31 March 2015 as for preparing the assessment for the year ended 31 March 2013.</p>	

3 A detailed estimate of savings over the next 15 years.

a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each three-year period starting from 1 April 2018.

Total value of savings (per annum) estimated to be achieved by the Pool as at:

31 March 2021: £7m

31 March 2024: £13m

31 March 2027: £20m

31 March 2030: £23m

31 March 2033: £29m

An analysis of the estimated savings to be achieved by each of the authorities in the Pool at the end of the periods noted above is set out at Annex C 3 (a) (i).

b) Please list below the assumptions made in estimating the savings stated above (for example, if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

The estimated savings reflect the Pool's forecast savings between 2017/18 (the Base Year) and each of the three-year period end dates. The estimate excludes the actual cost savings of £11m achieved by the pool members between 2012/13 and 2014/15 and forecast pre-launch savings of £15m between 2015/16 and 2017/18. A bridge of 2012/13 to 2014/15 total investment costs is set out at Annex C 3 (b).

The savings are calculated after charging annual ongoing operating running costs of around £5m but before charging non-recurring implementation (i.e. set-up costs) and transition costs.

The forecast is based on the actual asset allocations at 31 March 2015 and assumes no change in either the asset allocation mix or the style of investment management (i.e. internal vs. external/ active vs. passive management).

The cost savings are forecast to come from a number of areas including the consolidation of segregated mandates, reduced use of pooled vehicles and fund of funds, a switch from indirect to direct property, and more competitive fees from alternatives achieved through increased scale. The assumed reductions in investment management fees are based on our experience of market rates or using assumptions set out within the Project POOL Report.

An alternative scenario has also been run to estimate the impact of an increase in the use of internal management from its current level of around 21% to 39% of total assets. The scenario sees estimated cumulative 2017/18 to 2032/33 cost savings, post-implementation costs.

c) Alternatively, you may attach an Annex showing the assumptions and rationale made in estimating the savings shown.

Attached as Annex C(3) (c) (this Annex has been removed as it is considered to be commercially sensitive)

4 A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the Pool, and an explanation of how these costs will be met.

a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the Pool will break even (i.e. the benefits will exceed additional costs of pooling).

A summary of estimated implementation costs, comprising set-up costs and transition costs, is set out at Annex C 3 (a) (ii) (this Annex has been removed as it considered to be commercially sensitive). Set-up costs are estimated at £3.3m.

The pool is estimated to break even (i.e. when estimated cumulative savings net of annual operating running costs exceed cumulative implementation costs) in 2025/26.

b) Please list below the assumptions made in estimating the implementation costs stated above (for example, if you have assumed a standard cost for each asset class, please state the assumption and the rationale behind it).

Implementation costs (i.e. set-up costs) have been built up on a category-by-category basis.

Transition costs are based on asset class assumptions in respect of retention rates and bid/offer spreads. The retention rate estimates reflect assumed levels of in specie transfers, and are based on a combination of internal estimates and discussions with third party transition managers. The assumed level of bid/offer spreads include commissions, taxes and market impact. The estimates exclude the potential opportunity cost (i.e. the difference in performance during the transition of what you actually hold and what you are trading into).

Transition costs are very difficult to estimate and there is an unquantifiable level of “double-counting” of costs over the transition period because there would be an underlying level of portfolio turnover over this period at a Fund level regardless of the creation of the Pool.

c) Alternatively you may attach an Annex showing the assumptions and rationale made in estimating the implementation costs shown.	Attached as Annex C(3) (c) (this Annex has been removed as it considered to be commercially sensitive)
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d) Please explain how the implementation costs will be met by the participating authorities.

The implementation costs will be met by the Participating Funds.

5 A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.

- a) Please explain the format and forum in which the Pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.

Shareholders will agree a budget/fee model against which actual costs will be monitored and reported on, both at Operator and Shareholder level. It is expected that within the first 18 months of operation, a representative from the Operator will attend the Shareholder's Forum and/or the Practitioners' Forum to report on these matters and that the information will be published on a dedicated website. An AGM/Investor Day for Shareholders is also being considered.

- b) Please explain the format and forum in which the Pool and participating authorities will transparently report actual investment costs and fees as well as net performance.

As above

- c) Please explain the format and forum in which the Pool and participating authorities will transparently report actual savings compared to the forecasts above.

As above

CRITERION D: AN IMPROVED CAPACITY TO INVEST IN INFRASTRUCTURE

1 The proportion of the total Pool asset allocation currently allocated to/committed to infrastructure, both directly and through funds, or “funds of funds”

a) Please state the pool’s committed allocation to infrastructure, both directly and indirectly, as at 31 March 2015.	1.8% weighted average allocation
b) Please state the pool’s target asset allocation to infrastructure, both directly and indirectly, as at 31 March 2015.	3.8% (as at 31 December 2015)

Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- a) Substantially backed by durable physical assets
- b) Long life and low risk of obsolescence
- c) Identifiable and reliable cashflow, preferably either explicitly or implicitly inflation-linked
- d) Revenues largely isolated from the business cycle and competition, for example, through long-term contracts, regulated monopolies or high barriers to entry
- e) Returns to show limited correlation to other asset classes

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, and social accommodation.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be. Infrastructure service companies would not normally be included. The development, construction and commissioning of infrastructure assets is included in the broad definition.

Individual infrastructure investors will have further additional criteria they apply before making investments, such as current yield, time to income generation, management strength, risk mitigation measures, and amount of leverage.

The percentages specified above cover Funds’ formal allocation to infrastructure. Funds may have significant investments in infrastructure assets outside these allocations in areas such as bonds, equities, real estate, private equity and debt. No agreed methodology exists for assessing the broader exposure to infrastructure, but the Pool will work with other pools to develop appropriate methods.

2 How the Pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined Pool, rather than existing fund, or “fund of funds” arrangements.

a) Please confirm that the Pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.

LGPS Central is committed to working with other Pools and is participating in meetings of the Cross Pool Collaboration Infrastructure Group (CPCIG).

b) Please confirm that the Pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.

Confirmed Yes
Details attached as Annex number D 2 (b)

c) [If different to above] Please attach an Annex setting out how the Pool might develop the capability and capacity in this asset class, through developing its own resources and/or accessing shared resources of other Pools and include a timescale for implementation of the initiative.

Attached as Annex number D 2 (c)

3 The proportion the Pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.

a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.

Minimum 5% but up to 6% or 7% estimated, although this will depend on each Fund's investment strategy.

b) Please describe the conditions in which this allocation could be realised.

The strategic allocation to infrastructure across the Pool has already grown to 3.8% (from virtually nil in 2013) and a number of Participating Funds already have plans to review and increase their allocations. Two Funds have no current allocation, but are starting to assess the potential strategic value of the asset class. The target allocation is based on data gathered from each Fund regarding their potential appetite for infrastructure.

The existing level of actual investment is substantially below the strategic allocation and this indicates the difficulty in achieving meaningful investment over a short time frame. Reaching the target investment level will depend on:

- the availability of suitable opportunities to meet funds' risk/return appetites;
- appropriate pricing of opportunities;
- compatibility with Participating Funds' investment needs, actuarial valuations, funding strategies, and cashflows;
- potential structuring of deals to meet Funds' needs;
- no increase in regulatory and financial risk in investments;
- availability of competent, high quality resources (in terms of people and managers) at reasonable price.

Lack of attractive investment opportunities may result in funds changing their views on the strategic importance of the asset class in meeting their funding and cashflow requirements. The approach outlined in question 2 will help to ensure that the conditions outlined above are met.



Criterion A: Asset Pools that achieve the benefits of scale

2. (b) Please attach an ANNEX for each authority that proposes to hold assets outside of the Pool detailing the amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money.

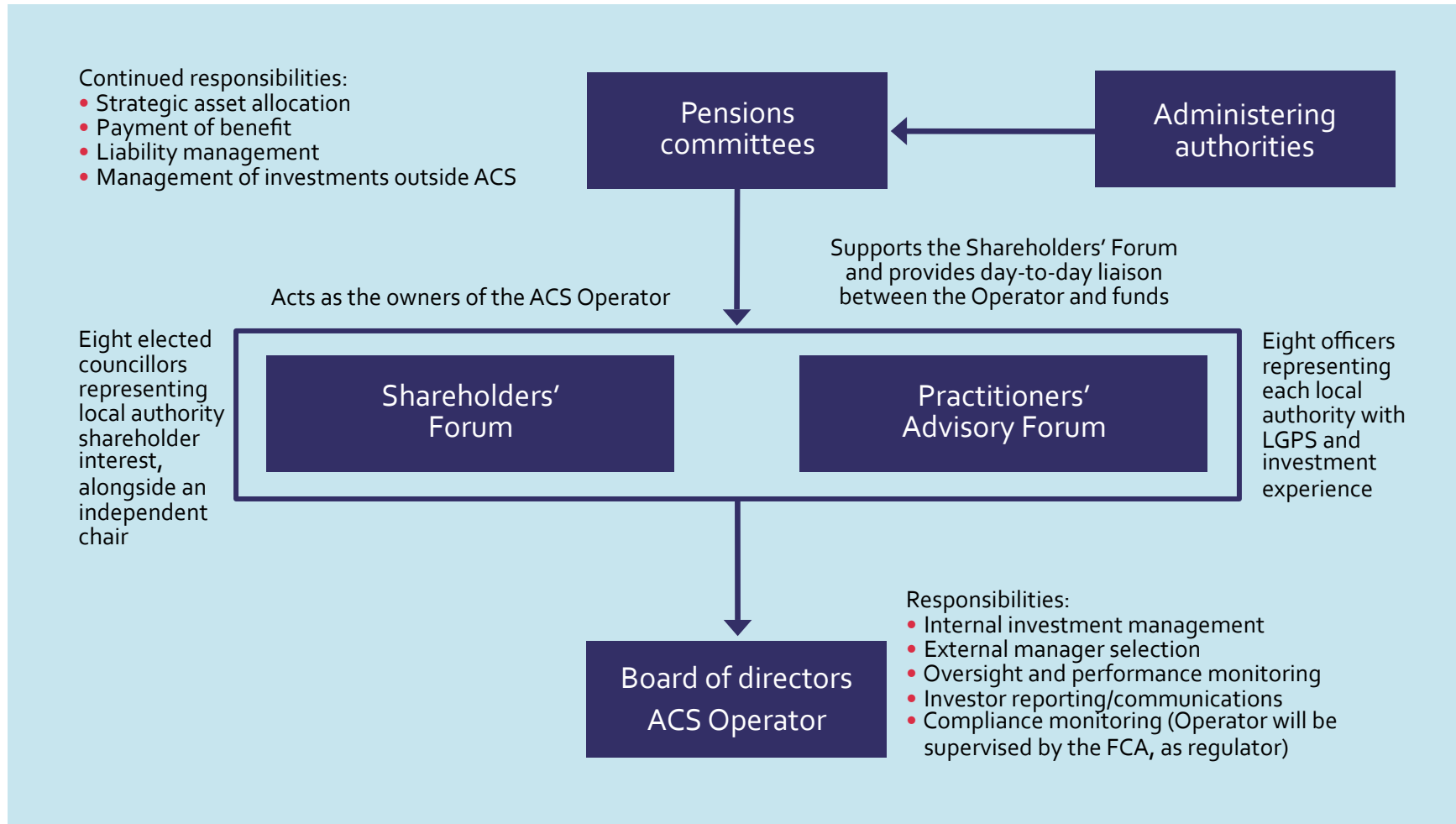
- 1 West Midlands Pension Fund (including the West Midlands Integrated Transport Authority Pension Fund, "WMITA"), proposes to hold a Prudential Buy in of £264m, outside the Pool indefinitely. This is because it is a liability matching asset, specific to the members of the WMITA.
- 2 Cash will need to be held outside of the Pool indefinitely, by each administering authority, to service its own day-to-day operational requirements (e.g. collection of contributions, payment of retirement pension benefits and lump sums, payment and receipt of transfer values). The model assumes that each Fund will retain 100% of the reported cash balance at 31 Mar 15 (£1,168m across the Pool) for this purpose. If all cash was pooled, it would mean Funds would be drawing down cash from the Pool on a daily basis, which would be inefficient and incur transaction costs.
- 3 A breakdown by Fund is attached.

LGPS CENTRAL

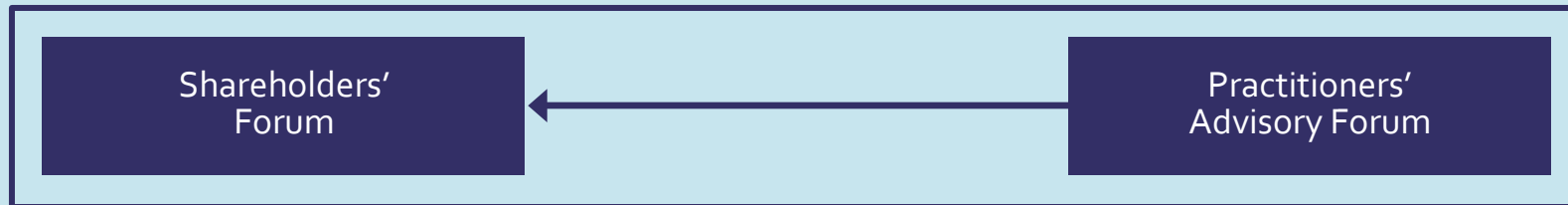
GOVERNANCE STRUCTURES



SUPERVISORY BODY/ OWNERSHIP STRUCTURE



SUPERVISORY BODY/ OWNERSHIP STRUCTURE



Act as 'owners' of the Operator. Oversees that the Operator is run in the interests of shareholders by holding final approval over strategic decisions.

Comprised of eight elected councillors representing local authority shareholder interest, alongside an independent chair.

Meet formally on a quarterly basis.

• **Example shareholder powers under the agreement**

- Appoint/remove directors of the company
- Approve annual business plan
- Approve annual budget (fee model/ cost base)
- Approval of executive pay (feeding through the Operator's board usually through remuneration sub-committee)
- Approve share capital changes to meet regulatory capital requirements
- Approve significant transactions (e.g. introduction of new members to the Pool)
- Approval/determination of pool exit terms including notice period/exit treatment
- Approval of RI/ESG policy framework

Support the Shareholders' Forum. Provide day-to-day liaison between the local authority pension funds and the Operator.

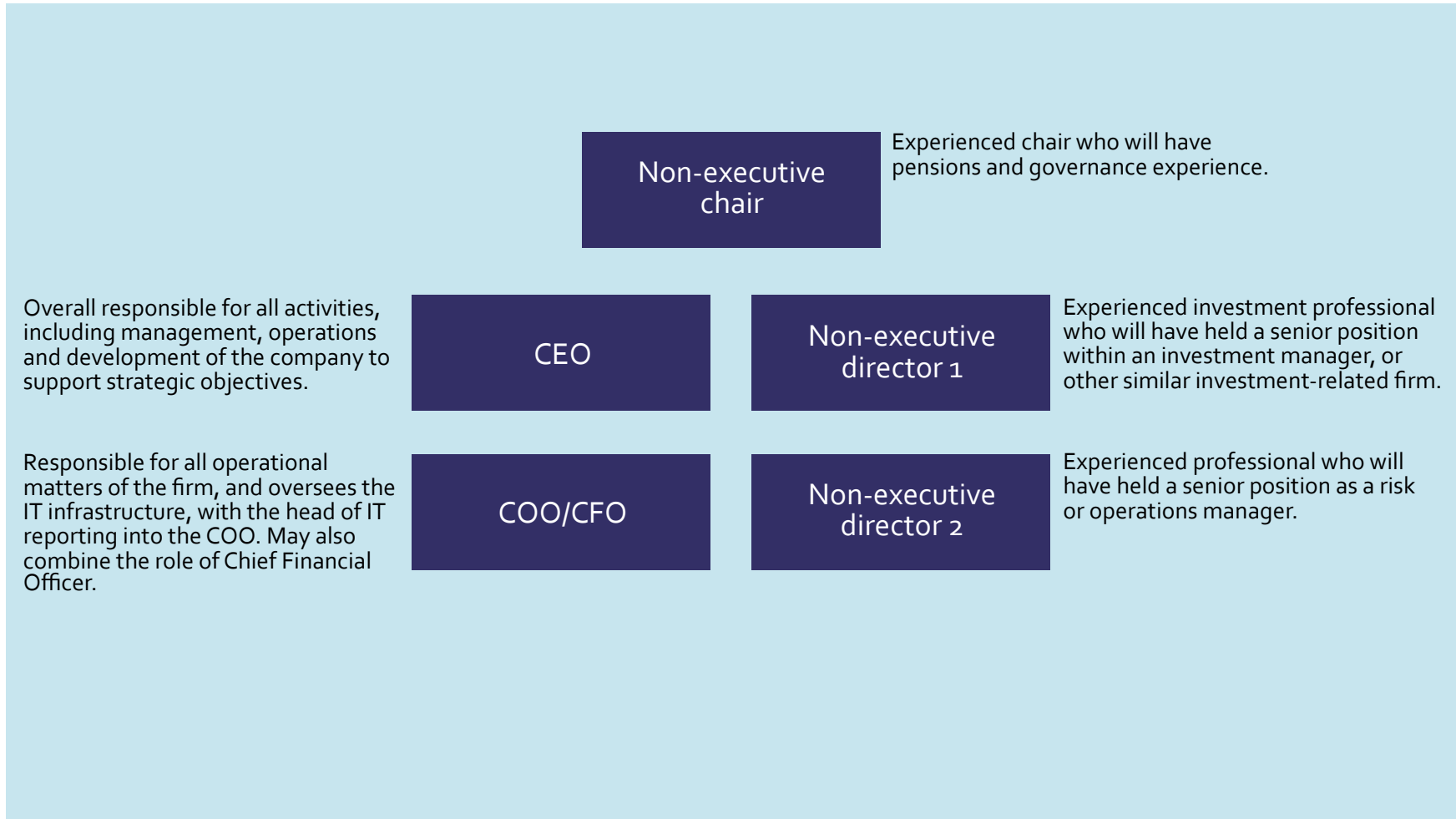
Comprised of eight officers representing each local authority with LGPS and investment experience.

Meet formally on a quarterly basis.

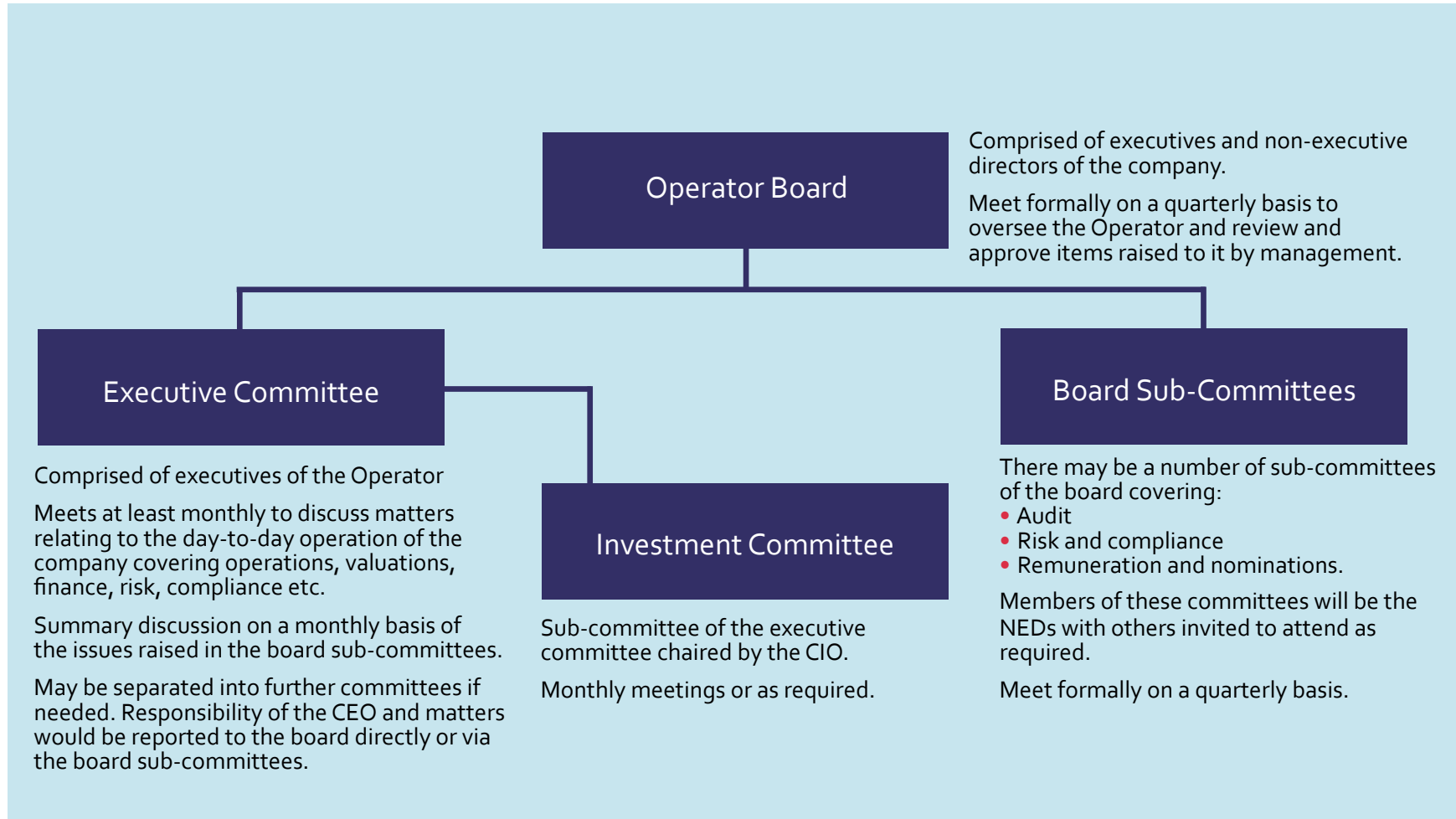
• **Example practitioner activities**

- Provide guidance and advice to the Shareholders' Forum
- Provide investment guidance to the Operator
- Review and feedback on investment performance
- Provide advice to the Operator on the strategic investment direction

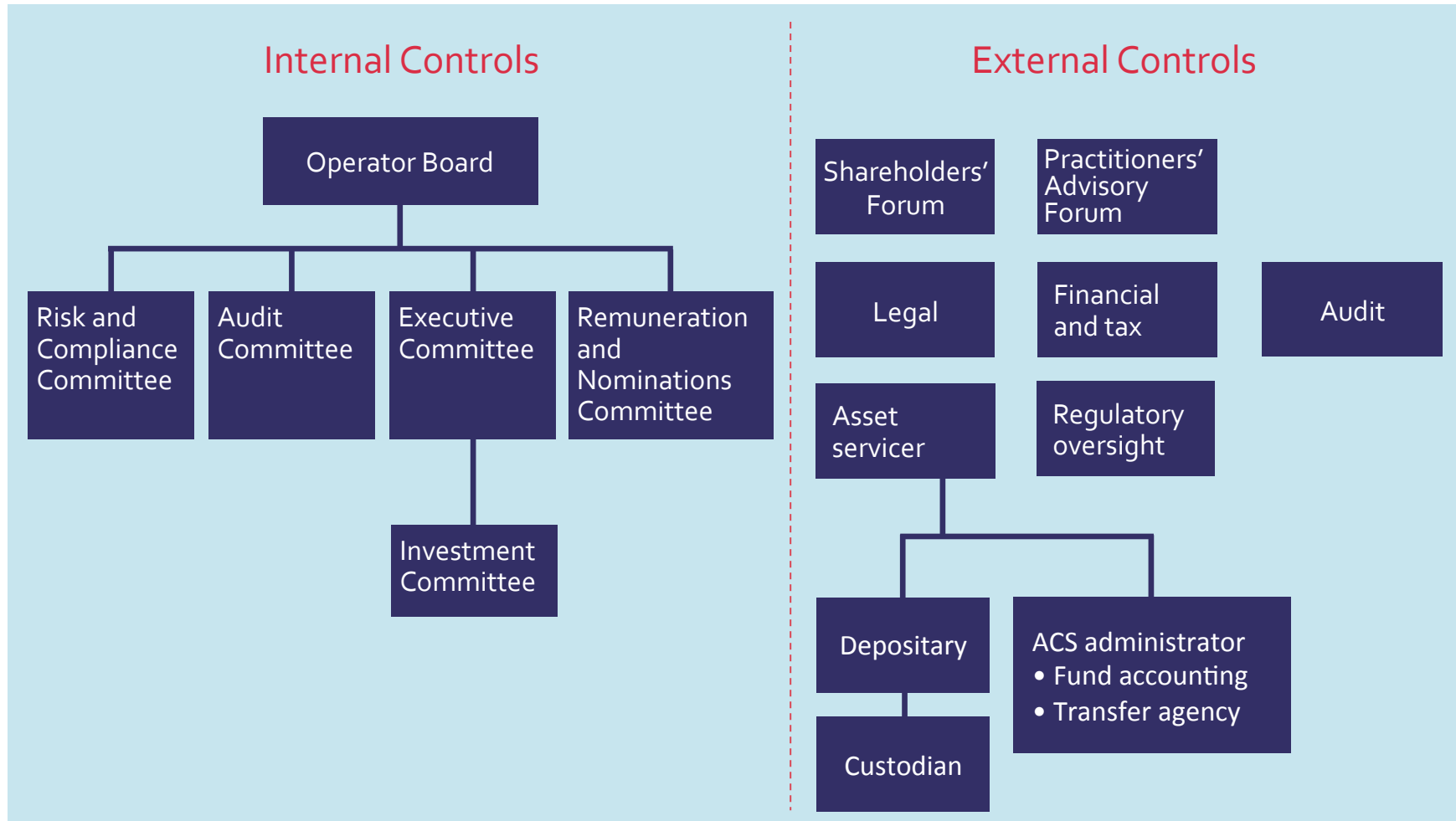
OPERATOR – BOARD COMPOSITION



ACS OPERATOR – TYPICAL GOVERNANCE STRUCTURE



OPERATOR AND POOL CONTROL ENVIRONMENT

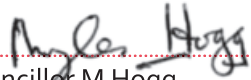




Resolution for Participating Funds to be passed on 8 July 2016


In connection with the setting up of the LGPS Central Investment Pool, it is resolved that:

- 1 the structure for the LGPS Central Investment Pool is an FCA-authorised one with an Operator for it to be created and built ;
- 2 the LGPS Central Investment Pool's business case dated 8 July 2016 for submission to the DCLG is approved, including the draft responsible investment framework and other annexes; and
- 3 The LGPS Central Investment Pool's budget dated 8 July 2016 is approved.

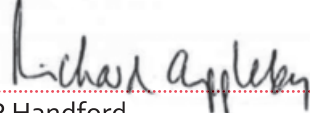
Signed by 
Councillor M Hogg
Chair

For and on behalf of Cheshire West and Chester Council


Mr M Wynn
Section 151 Officer

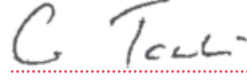
Signed by 
Councillor D Wilcox
Chair

For and on behalf of Derbyshire County Council


Mr P Handford
Section 151 Officer


Signed by 
Councillor G Hart
Chair

For and on behalf of Leicestershire County Council


Mr C Tambini
Section 151 Officer


Signed by 
Councillor R Adair
Chair

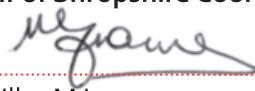
For and on behalf of Nottinghamshire County Council


Mr N Stevenson
Section 151 Officer


Signed by 
Councillor M Pate
Chair

For and on behalf of Shropshire Council


Mr J Walton
Section 151 Officer

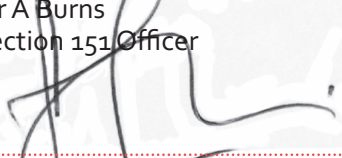
Signed by 
Councillor M Lawrence
Chair


For and on behalf of Staffordshire County Council


Mr A Burns
Section 151 Officer


Signed by 
Councillor I Brookfield
Chair

For and on behalf of City of Wolverhampton Council


Mrs G Drever
Strategic Director of Pensions

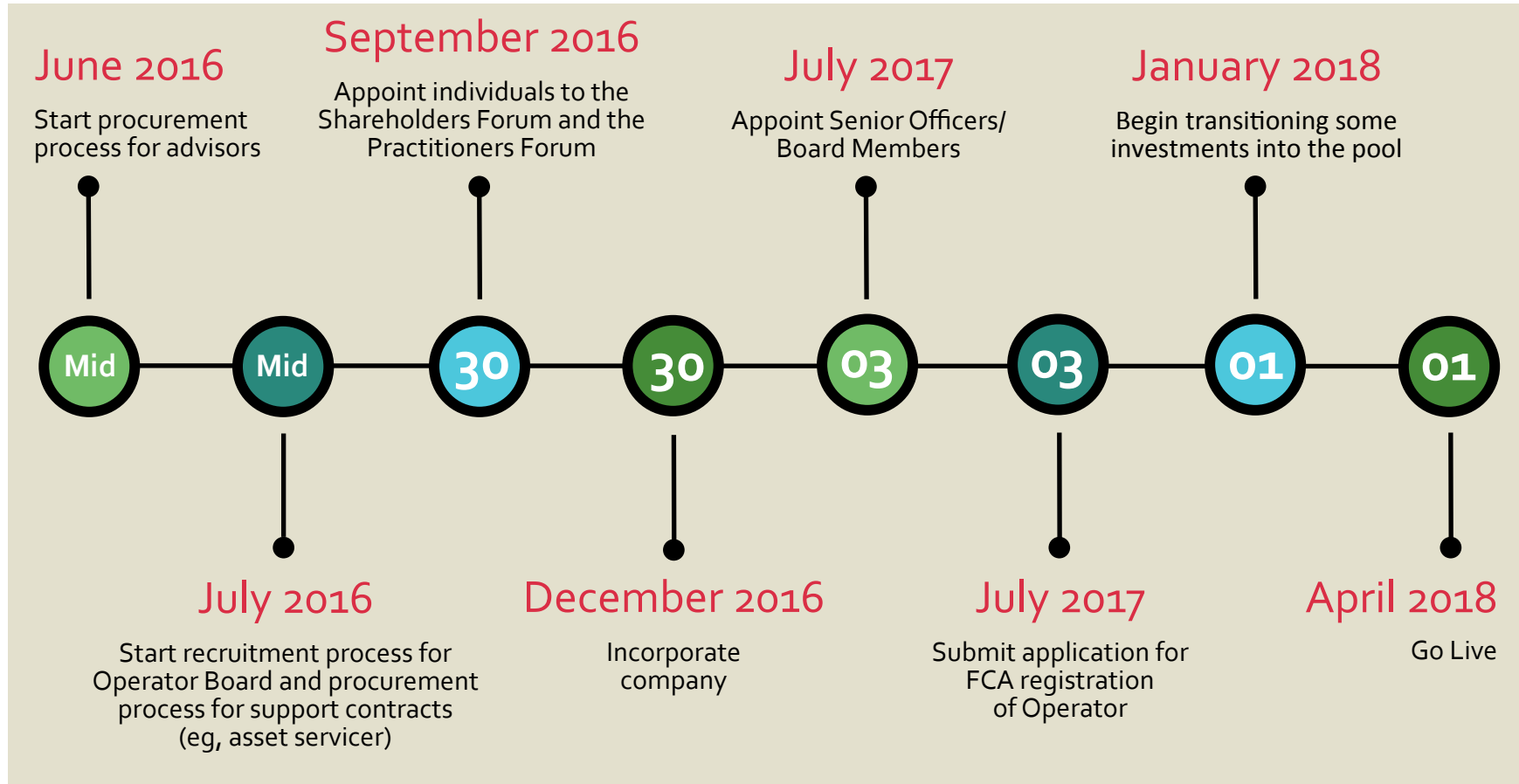
Signed by 
Councillor R Banks
Chair

For and on behalf of Worcestershire County Council


Mr S Pearce
Section 151 Officer

Dated 8 July 2016

KEY MILESTONES





Criterion A: Asset Pools that achieve the benefits of scale

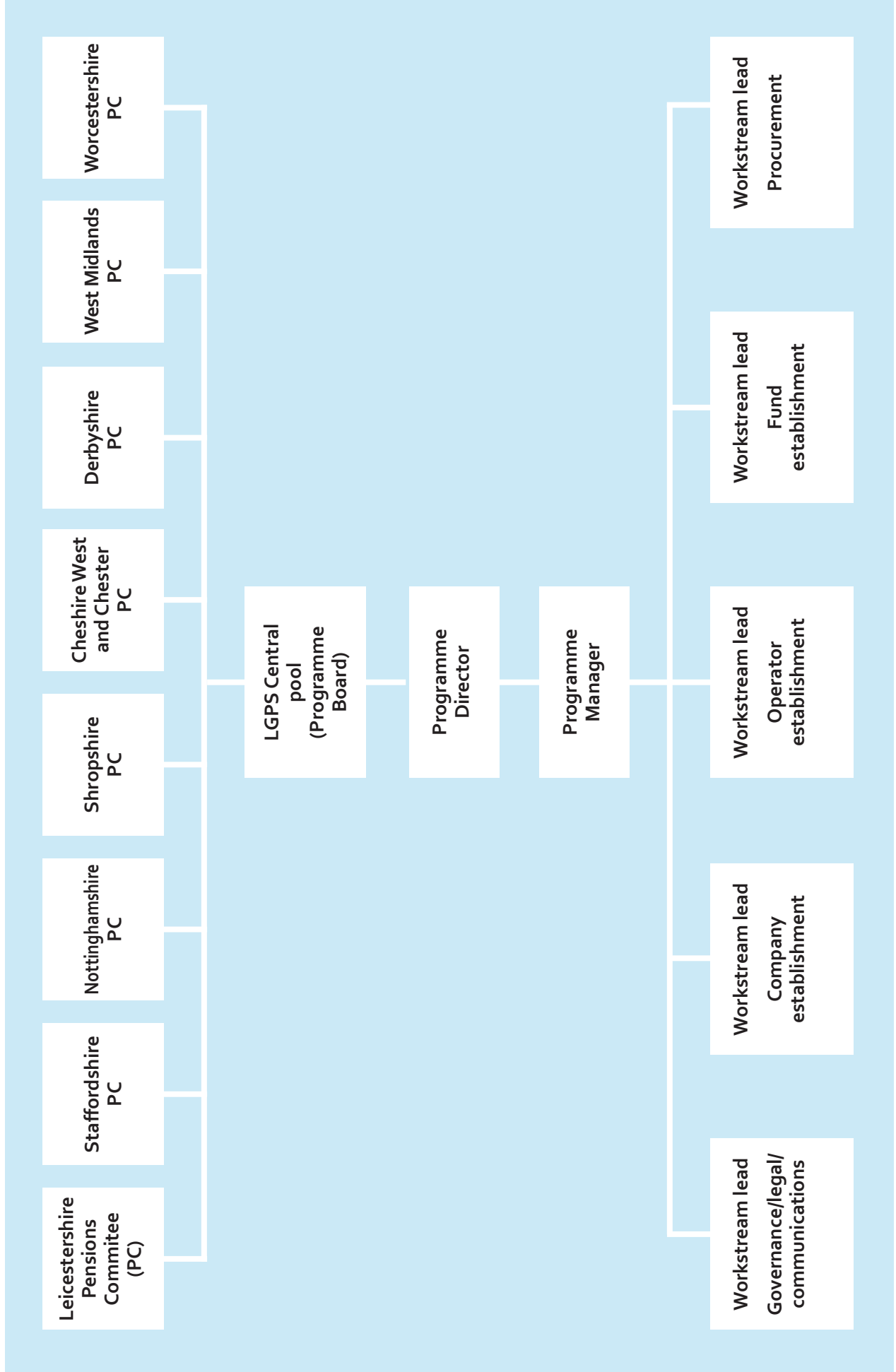
5. (1)(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

Reporting progress

The project will be divided into workstreams (see diagram below) and Pool officers allocated to each workstream.

The workstreams are summarised below and terms of reference provided which explain how progress will be reported.

Programme Team – Work Streams Post-15 July 2016



Work Streams Detail

Company establishment

Aim: To set up the ACS Operator as an investment company

- Establish company infrastructure and support systems
 - Procure support contracts – legal, tax advisor, bank, auditor, IT
- Policies, procedures and manuals
 - e.g. Head of Terms, Shareholders Agreement, Articles of Association, Memorandum of Association, Business Plan
- Recruitment:
 - Directors, company secretary, other staff (consider approved persons regime)
- Register with Companies House and issue shares

ACS Operator establishment

Aim: To get the Operator FCA registered

- Submit application including setting up:
 - Valuation function
 - Operating model and manual
 - Compliance manual
 - Risk framework, manual and register
 - Business continuity plan
 - IT strategy
 - Regulatory capital
- Submit approved persons application
- Procure support contracts – draft and agree contracts
 - Legal
 - Tax advisor
 - Asset servicer
 - Operating reporting partner
 - Depository
 - Auditor

ACS Fund establishment

Aim: To set up Pool/sub funds and get the ACS fund registered

- Operational set-up: SLAs, depository, asset servicer, auditor, subscription pack, tax forms, transition management agreements, oversight model and processes
- Draft and agree key documents
 - Prospectus, scheme deed, form 261, custody doc, legal
- Procure and appoint investment managers to pool – draft and agree IMAs
- Submit FCA registration
- Obtain tax opinions and rulings
- Design transition plan

Governance/legal/communications

Aim: Set-up governance and reporting structure - joint committee/holding company and procure advisors

- Set up joint committee/holding company
 - Including terms of reference, memorandum of understanding
- Manage communications

Procurement

Aim: To co-ordinate and support the procurement exercises within the other workstreams, for example

- Asset servicer
- Financial and tax advisor
- Legal advisor
- Bank
- Auditors
- Investment managers
- Transition manager
- HR advisor
- Staff

It is intended that a representative from each of the other work streams will also sit on the Procurement workstream.

Terms of Reference

1 Programme Board

The Programme Board is accountable for the success of the project and has the authority to direct the project within the remit as documented in the project mandate.

The Programme Board is also responsible for the communication between the programme management team and stakeholders external to that team.

The Programme Board will meet every two months throughout the implementation of the programme.

Constituents: Cheshire Pension Fund (PF), Derbyshire PF, Leicestershire PF, Nottinghamshire PF, Shropshire PF, Staffordshire PF, West Midlands PF, Worcestershire PF, plus the Programme Director

General responsibilities: Approve the programme plan and budget and monitor progress, communicate with stakeholders, manage risks, appoint the Operator Board CEO and advisors, any other decisions

2 Programme Director

The Programme Director is ultimately responsible for the project, supported by the Programme Manager. The Programme Director's role is to ensure that the project is focused throughout its life on achieving its objectives and delivering a product that will achieve the forecast benefits. The Programme Director has to ensure that the project gives value for money, ensuring a cost-conscious approach to the project, balancing the demands of the business, user and supplier. Throughout the project, the Programme Director is responsible for the Business Case.

General responsibilities: Design and appoint the project management team, oversee the development of the business case, secure funding, monitor and control the progress of the project at a strategic level, manage risks.

3 Programme Manager

The Programme Manager has the authority to run the project on a day-to-day basis on behalf of the LGPS Central Pool within the constraints laid down by them.

The Programme Manager's prime responsibility is to ensure that the project produces the required products within the specified tolerances of time, cost, quality, scope, risk and benefits. The Programme Manager is also responsible for the project producing a result capable of achieving the benefits defined in the Business Case.

General responsibilities:

- 3.1.1 Prepare the following reports: Programme Highlight reports, Issue Reports, Risk Register, Daily Log, Lessons Report, and End Project Report
- 3.1.2 Manage the information flows between the directing and delivering levels of the project
- 3.1.3 Manage the production of the required products, taking responsibility for overall progress and use of resources and initiating corrective action where necessary
- 3.1.4 Authorise Work Packages
- 3.1.5 Advise the Programme Director of any deviations from the plan

4 Workstream Lead

The Workstream lead's prime responsibility is to ensure production of those products defined by the Programme Manager to an appropriate quality, in a set timescale and at a cost acceptable to the Programme Board. The Workstream lead role reports to, and takes direction from, the Programme Manager.

General responsibilities:

- 4.1.1 Prepare the Workstream Plan and agree it with the Programme Manager
- 4.1.2 Produce Workstream Highlight Reports (including identifying any issues and risks)
- 4.1.3 Plan, monitor and manage the team's work. Take responsibility for the progress of the team's work and use of team resources, and initiate corrective action, where necessary.
- 4.1.4 Pass back to the Programme Manager products that have been completed and approved in line with the agreed Work Package requirements.



Statement of commitment

LGPS Central is investigating the opportunities for investment collaboration between like-minded Local Government Pension Scheme funds against the background of the Government's proposals for pooling LGPS investments. The Group has a regional identity, but collaboration with other LGPS pools will be welcomed. **One fund, one vote**, will be an overriding principle of any resulting pooling arrangement. Recognising that Funds have different funding levels and deficit recovery profiles, the Pool's structure will aim to meet the Funds' needs in this respect.

Characteristics

- Assets will be managed by both internal and external investment managers
- The split between internal and external management will vary over time
- The internal investment resource and resilience will be developed where appropriate
- Knowledge and expertise will be shared
- Participants will be open to challenge and change
- Participants will listen and be constructive
- Strong governance, based on openness and transparency, within the Pool will be paramount
- Costs will be actively managed and transparent, and will be shared fairly between participants
- Responsible investment will be an integral part of the investment process
- Collaboration with other LGPS pools will be encouraged

Investment Beliefs

- A long-term approach to investment will deliver better returns
- The long-term nature of LGPS liabilities allows for a long-term investment horizon
- Asset allocation is the most important factor in driving long-term investment returns
- Liabilities influence the asset structure; Funds exist to meet their obligations
- Risk premiums exist for certain investments and this can help to recover funding deficits
- Markets can be inefficient; therefore there is a place for both active and passive management
- Diversification across investments with low correlation improves the risk/return profile
- Secure and growing income streams underpin the ability to meet future liabilities
- Responsible investment can enhance long-term investment performance

Measurement of Success

- Successful delivery of the Pool against the Government's published criteria



Statement of objectives

The shared objectives of the Pool are:

- i) to meet the investment objectives of the Participating Funds
- ii) to establish a collaborative platform through which administering authorities of the Participating Funds can aggregate their pension assets with a view to providing scale economies and improved investment efficiency
- iii) to develop internal investment management capabilities for the collective benefit of the Participating Funds, in order to provide wider investment choice and market competition
- iv) to create capacity to invest in asset classes which individual Funds may find difficult to access
- v) 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)
- vi) to act as a responsible, long-term investor, using its influence as a shareholder to promote the highest standards of corporate stewardship
- vii) 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



Communications policy

The following ground rules are recommended when it comes to dealing with the media and external parties generally (including external fund managers) regarding the planned investment Pool. It is for individual Funds to work with their communications teams and keep them informed.

- Any press announcement (such as the one released on 18 December 2015) should be agreed by all Participating Funds and any other parties mentioned in the announcement (such as joining funds or professional advisers);
- The timing of the release of any announcements should be agreed by all Participating Funds;
- Any prepared statements and/or briefings for communications teams should be agreed in advance by all Participating Funds;
- When dealing with the media on any questions, a policy of 'no comment' should be adopted to any conjectural or speculative questions (e.g. on how the new pooling arrangements might work in practice);
- If anything obviously inaccurate or misleading is published in the media that could affect the new investment Pool, the record should be set straight if Participating Funds so agree;
- It is suggested that there is one nominated point of contact (plus a substitute) in future press announcements to handle any media enquiries;
- It is for individual Funds to decide on the distribution of press announcements to external parties but, in order to avoid duplication, it is recommended that one nominated Fund distributes announcements to the national press and trade publications.



Pooling communications strategy 2016 – 2018 (2.3)

Executive Summary

This document sets out the proposed communications strategy for LGPS Central and its Participating Funds. It is designed to ensure consistency, also to minimise duplication.

Audiences

The Pool should be mindful of engagement with the following audiences:

Internal

- Committee members; Committee Chairs / Vice Chairs;
- Section 151 Officers;
- Fund Employees.

External

- Participating employers;
- Scheme members;
- Local Government Association (LGA); Department for Communities and Local Government (DCLG); Her Majesty's Treasury (HMT) other investment pools
- The media; general public;
- Trade unions;
- External investment managers/advisers (both to the Fund and the pool).

Background

In the July 2015 Budget, the UK Government asked Local Government Pension Scheme (LGPS) funds to put forward proposals to pool investments to reduce costs significantly while maintaining overall performance.

In December 2015, a joint announcement was made by pension funds based in the Midlands, to create an investment pool. This comprised of **eight funds**: Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands Pension Fund (including West Midlands Integrated Transport Authority) and Worcestershire.

This collaboration will create a multi-asset investment pool of £34 billion in size, meeting the scale sought by the UK Government in its investment pooling criteria for the LGPS.

Scope

This strategy applies to everyone involved in the creation of the LGPS Central investment pool.

Suggested communication frequency and channel

Internal Communication

Audience	Frequency	Channels
Committee members, Chairs, Vice Chairs, Section 151 Officers	Monthly	<ul style="list-style-type: none"> Briefing notes Committee papers as required Presentations for joint meetings as required
Fund employees	Fortnightly	<ul style="list-style-type: none"> Verbal briefings Presentations as required

External Communication

Audience	Frequency	Channels
Participating employers, scheme members	As necessary	<ul style="list-style-type: none"> Employer briefings/presentations Websites
LGA, DCLG, HMT, other investment pools	Ad-hoc	<ul style="list-style-type: none"> Meetings Submissions
Media, general public	Ad-hoc, and for significant developments	<ul style="list-style-type: none"> Email Websites Prepared statements Press releases
Trade unions	Ad-hoc	<ul style="list-style-type: none"> Prepared responses Websites
External investment managers/advisers (existing and new)	Ad-hoc	<ul style="list-style-type: none"> Prepared responses Websites

External Communications Policy

The following ground rules were agreed at the pooling group's meeting on 8 January when it comes to dealing with the media and external parties generally (excluding external fund managers) regarding the planned investment pool.

- 1 Media announcements (such as the one released on 18 December 2015) should be agreed by all Participating Funds and any other parties mentioned in the announcement (such as joining funds or professional advisers);
- 2 The timing of the release of any announcements should be agreed by all Participating Funds;
- 3 Any prepared statements and/or briefings for Fund communications officers should be agreed in advance by all Participating Funds;
- 4 When dealing with the media on any questions, a policy of 'no comment' should be adopted to any conjectural or speculative questions (e.g. on how the new pooling arrangements might work in practice);
- 5 If anything obviously inaccurate or misleading is published in the media that could affect the new investment pool, the record should be set straight if Participating Funds so agree.
- 6 During times of urgent communication*, one of the senior dedicated communications contacts with the Pool will be called upon to offer a face-to-face or telephone interview. Where possible we will seek the consensus of the majority of the Pool.
- 7 It is suggested that there is one nominated point of contact (plus a substitute) in future press announcements to handle any media enquiries. Individual funds should decide on the distribution of media announcements; to avoid duplication, it is recommended that one nominated Fund distributes announcements to the national press and trade publications (as WMPF did with the announcement released on 18 December 2015).

**For example, leaks of sensitive information, or a change of policy/direction.*

Key timings and suggested communications deliverables for LGPS Central

Date	Incident	Internal	External	Notes
April 2016	Response received in connection to initial pooling submission. LGPS Central to decide pooling structure and agree business plan	Monthly briefings to pension committee members as agreed by the Pool	Forward letter of reply to the media.	
24 May 2016	Meeting of Chairs, Vice Chairs, Section 151 Officers	Presentation on business plan/ structure		
June 2016	Funds' annual reports and accounts to be produced		Wording to be included	
Mid-June	Administering authorities to approve business plan for submission.	Reports on individual Committees for approval		
8 July 2016	Meeting of Chairs, Vice Chairs, Section 151 Officers	Presentation on proposed submission		
15 July 2016	Finalised joint pooling submission to DCLG		Prepared statement agreed by Pool in readiness for any media enquiries and the unions	
Sept 2016	Joint Pension Funds' Committee (LGPS Central Shareholders' Forum)			

Date	Incident	Internal	External	Notes
Dec 2016	Incorporation of ACS operator company			
July 2017	Operator authorisation – get ACS FCA registered (submit application)			
July 2017	ACS Fund authorisation – get ACS Fund registered			
Jan 2018	New pooling arrangements ready – begin transitioning some investments into the pool			
April 2018	LAUNCH OF POOL		Launch of LGPS Central website. Press release	



RESPONSIBLE INVESTMENT FRAMEWORK

RESPONSIBLE INVESTMENT FRAMEWORK 2016

1) INTRODUCTION

This framework defines the commitment of LGPS Central Investment Pool ('the Pool') to responsible investment (RI). Its purpose is to detail the approach that the Pool aims to follow in integrating environmental, social and governance (ESG) issues in its investments. This framework has been adopted by the Section 101 Committees of the Pool's participating funds.

1.1 Beliefs and Guiding Principles

The Pool's RI beliefs and guiding principles underpin its RI approach and are described below.

ESG Integration

The Pool believes that effective management of financially material ESG risks should support the Pool's requirement to protect returns over the long term. With regard to climate change risks, the Pool recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

The Pool considers RI to be relevant to investment performance across asset classes.

The Pool recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth. It is supportive of the UK Stewardship Code.

Engagement Versus Exclusion

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Pool has a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Pool extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing its RI approach.

The Pool believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone.

Fees and Incentives

Managing fees and costs matter in low-return environments. Fee arrangements with external fund managers – as well as the remuneration policies of investee companies – should be aligned with the participating funds' long-term interests. The Pool recognises that it is part of its fiduciary duty to ensure that there is appropriate alignment.

An Evolving and Flexible Approach

The Pool recognises that it, along with the entire investment chain, is on a journey with respect to RI. This framework will remain flexible and will evolve over time to reflect evolving market developments.

1.2 Oversight and Application

Section 101 Committees of participating funds will review this policy at a minimum annually, or whenever they or the Pool proposes revised RI policies and procedures.

1.3 Content

The RI framework is divided into two distinct sections:

- What the Pool expects of itself, companies and fund managers with respect to RI (Section 2).
- How the RI beliefs and guiding principles are implemented in practice (Section 3).

Definitions are also provided in Section 4.

2) RI EXPECTATIONS

2.1 Pool

2.1.1 General

The Pool aims to:

- 1) Be aware of and monitor financially material ESG issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Pool will monitor:
 - ESG issues in relation to internally managed investments;
 - the extent to which the external managers incorporate ESG issues into their investment processes; and
 - hold external managers to account for improvement in their ESG performance over a reasonable timeframe.

- 2) Make full use of its ownership rights, including voting and engagement activities. Either directly, collaboratively or through specialist service providers:
 - hold constructive dialogue with listed companies;
 - encourage the disclosure by companies of ESG issues; and
 - participate in the development of public policy on ESG issues.
- 3) Disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of participating funds' beneficiaries first.
- 4) Keep our stakeholders aware of our RI activities through:
 - making its RI policy documents public, eg, voting policies, RI policy;
 - providing a summary of the Pool's RI activities for publication in participating funds' annual reports;
 - publishing aggregate voting and company engagement statistics on a quarterly basis

2.1.2 Climate Change

The Pool aims to:

- encourage improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives;
- support – and where applicable co-file – reasonable shareholder proposals to disclose/justify a company's approach to climate change risk;
- review its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;
- contribute to public policy with regard to climate change as it relates to investment considerations;
- increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and
- keep up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes.

2.2 Companies

The Pool expects UK companies to adhere to the UK Corporate Governance Code¹ on a comply or explain basis. Further, the Pool has bespoke UK corporate governance guidelines which aim to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards.

The Pool expects companies outside the UK to adhere to international voting principles, recognising local application and development.

Environmental and Social Risks

The Pool expects companies to manage and disclose its environmental and social risks to the extent required for an understanding of the development, position and performance of the company. In alignment with the Association of British Insurers' position, there are aspects of environmental and social reporting on which the Pool places particular value given their relevance across all sectors, its holistic approach to risk management, and the view that owners should not micro-manage companies. This is narrative reporting which:

- sets ESG risks in the context of the whole range of risks and opportunities facing the company;
- contains a forward looking perspective; and
- describes the actions of the board in mitigating these risks.

In terms of the specific environmental and social issues to focus upon, the Pool takes a case-by-case, sector-based approach.

2.3 Fund Managers

2.3.1 Due Diligence

The Pool collects the following information from each manager before they are appointed where applicable to the asset class:

- Copy of their ESG, active ownership policies or equivalent which articulates how ESG factors (stemming from research, active ownership activities or other sources) are integrated into their investment process
- Case studies or examples of where ESG issues have influenced an investment decision
- Information on the process for integrating any third party ESG data (for example, MSCI) into their company financial models, investment strategies and portfolio construction
- RI reporting format

¹<https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>

- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and Stewardship Code, copy of their PRI public report and annual assessment scores if applicable.

2.3.2 Appointment

The Pool assesses the ESG capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, the Pool takes a balanced consideration of all relevant factors including ESG. However, the Pool will pay particular attention to adherence to relevant soft regulatory codes², notably the UK Stewardship Code, depending on the market in which it invests.

In practice, this means the Pool is willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over time. In alignment with our guiding principles on 'engagement versus exclusion', the Pool believes that there is added value in working with them to improve their approach.

2.3.3 Monitoring and Reporting

Each external fund manager is expected to report³ at agreed intervals to the Pool on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of ESG issues into its investment and active ownership activities.
- How investment and active ownership functions are combined to protect and/or enhance shareholder value
- How the manager exercised the Pool's voting rights.
- Any outcomes arising from the manager's engagement with companies and their effectiveness.

3) RI IMPLEMENTATION

The Pool's active ownership approach can be divided into three distinct areas: **voting globally**, **engagement through partnerships** and **shareholder litigation**. This section briefly outlines the Pool's processes for each.

3.1 Voting Globally

Where practical⁴, the Pool aims to vote in every single market in which it invests. In the interests of sending a consistent signal to investee companies, the Pool has decided to use a third party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Pool believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers. However, given market developments in this area, the Pool will re-evaluate this position on a yearly basis.

Reference to the Pool's voting policies is provided in Section 2.2 under 'Company Expectations'.

Securities Lending Programme

The Pool has an active securities lending programme. To ensure that the Pool is able to vote all its shares at important meetings, the Pool has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. The Pool monitors the meetings and proportion of the securities on loan, and will restrict and/or recall lent stock in select circumstances.

3.2 Engagement Through Partnerships

The Pool uses various engagement platforms to maximise its influence as an active owner in collaboration with other like-minded investors. The Pool's primary engagement partnerships are highlighted below.

Local Authority Pension Fund Forum

The Pool is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group encompassing local authority pension funds from across the country with combined assets of over £160 billion. The Pool is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Pool with:

- independent research and advice on the ESG risks of companies to inform further stakeholder engagement;
- advice on the governance practices of companies;

² For example, UK and Japanese Stewardship Codes

³ Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

⁴ Issues such as power of attorney or share blocking in certain markets may prevent the Pool's ability to do so

- a forum to engage with companies to improve governance practices; and
- proxy voting advice on proxy voting for annual general meetings.

Industry Engagement

In collaboration with other like-minded investors, notably other LGPS investment pools, the Pool may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to achieve the aim of promoting sustainable growth. The Pool considers these initiatives on a case-by-case basis.

3.3 Shareholder Litigation

The Pool frequently hold securities that are the subject of individual and class action securities litigation. There are a number of litigation options available when a company has violated securities laws that result in losses to participating funds.

For US-based claims, the options would be to:

- remain in the class action and file proof of claim;
- participate as a lead plaintiff in a class action; or
- opt out and file a private action.

For non-US based claims, the options would be to join an existing group action or file a group action as a lead plaintiff.

The Pool takes a case-by-case approach in determining whether or not to join a class action but considers factors such as:

- advantages and disadvantages of the Pool becoming actively involved;
- relative size of the Pool's potential losses compared to other organisations;
- likelihood of success; and
- whether the Pool is fully indemnified against costs, expenses, counterclaims and any other losses.

4) DEFINITIONS

Responsible Investment

The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance. The Pool also supports the PRI's definition of responsible investment which can be found here:

<http://www.unpri.org/introducing-responsible-investment>

ESG

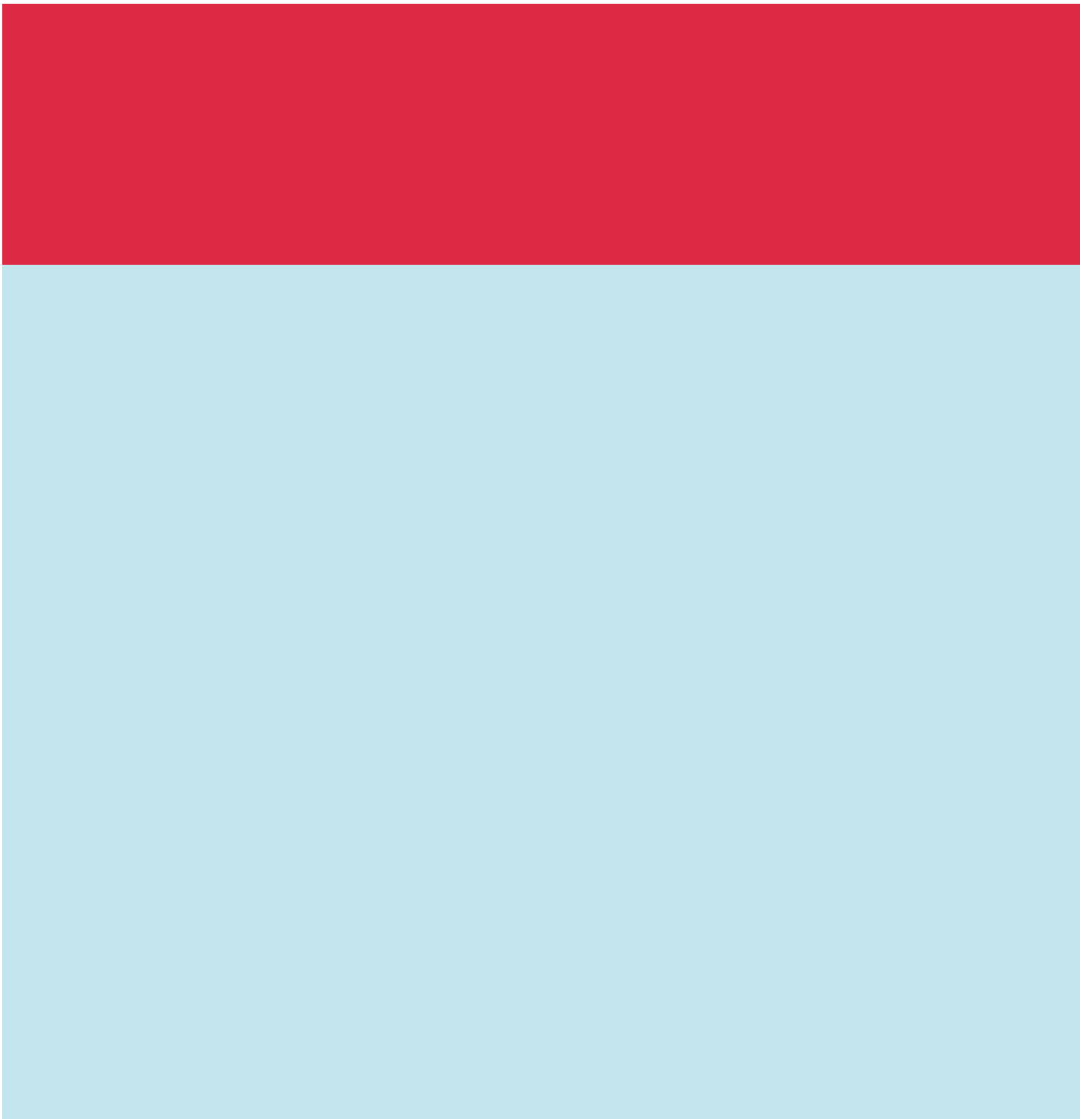
Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.

Governance

The process and principles by which a company or organisation undertakes its business. For the Pool, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Active Ownership

Refers to the responsibility of the Pool to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.





Criterion B: Strong governance and decision making

8. (a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the Pool.		
Governance	<p>Funds</p> <ul style="list-style-type: none"> The Scheme Advisory Board's (SAB) KPIs will be used. These cover 4 core areas and 14 supplementary areas. 	<p>Pool</p> <ul style="list-style-type: none"> A customer charter will be established for the Pool.
Performance	<ul style="list-style-type: none"> Performance will be compared to customised benchmarks for each pension fund 	<ul style="list-style-type: none"> Performance will be compared to customised benchmarks and outperformance targets (where applicable) at the following levels: <ul style="list-style-type: none"> Investment manager Sub fund Investment vehicle, e.g. ACS Pool as a whole
Cost	<ul style="list-style-type: none"> A 'Total Expense Ratio – TER' will be calculated for each pension fund. A Medium-Term Financial Plan (MTFP) will be established, including budget monitoring. 	<ul style="list-style-type: none"> A 'Total Expense Ratio – TER' will be calculated for each sub fund. Additionally where sub funds consist of several investment managers, a TER will be calculated for each investment manager. TERs will also be calculated for the ACS and for the running of the Pool overall. A Pool MTFP will be established, including budget monitoring. The Participating Funds have commissioned CEM Benchmarking to provide initial benchmarking data for the pool and are likely to continue to use this service going forward. A key feature of the CEM Benchmarking analysis is the assessment of 'Policy Return' (the return the Fund would have earned if it had passively implemented its policy mix through its benchmark indices) and 'Net Value added', which reflects the contribution of active management. This will allow Funds to assess the effectiveness of their own strategic investment decisions, as well as the tactical choices made by the Operator.



Total investment costs 2012/13

£ in million	Annual Report	Embedded Fees	Transaction Fees	Accounting Alignment	Other	Fully Transparent Basis
Cheshire Pension Fund	17.4	16.3	0.0	0.0	0.0	33.7
Derbyshire Pension Fund	4.0	7.1	1.0	(0.9)	(0.1)	11.0
Leicestershire Pension Fund	7.0	7.1	0.2	(0.4)	(0.0)	13.9
Nottinghamshire Pension Fund	3.5	5.4	0.8	(0.4)	0.0	9.3
Shropshire County Pension Fund	8.7	0.0	0.0	0.0	0.1	8.8
Staffordshire Pension Fund	9.3	4.2	0.0	0.0	(0.1)	13.4
West Midlands Pension Fund	11.3	72.8	1.0	0.0	(0.1)	85.0
West Midlands Pension Fund ITA	0.2	0.2	0.0	0.0	0.0	0.4
Worcestershire Pension Fund	4.4	0.0	1.3	(0.1)	0.0	5.6
Total	65.8	113.1	4.3	(1.8)	(0.2)	181.1



Total investment costs 2014/15

£ in million	Annual Report	Embedded Fees	Transaction Fees	Accounting Alignment	Other	Fully Transparent Basis
Cheshire Pension Fund	42.1	0.0	0.0	(1.9)	(0.1)	40.1
Derbyshire Pension Fund	4.7	8.9	1.1	(1.4)	0.0	13.3
Leicestershire Pension Fund	5.7	8.7	0.1	(0.3)	0.0	14.2
Nottinghamshire Pension Fund	3.8	6.5	0.9	0.0	0.0	11.2
Shropshire County Pension Fund	12.5	0.0	0.0	0.0	(0.2)	12.3
Staffordshire Pension Fund	13.1	3.3	0.0	0.0	0.4	16.8
West Midlands Pension Fund	81.2	0.0	(0.6)	0.0	1.4	82.0
West Midlands Pension Fund ITA	0.7	0.0	0.0	0.0	0.0	0.7
Worcestershire Pension Fund	4.4	0.0	1.4	0.0	(0.4)	5.4
Total	168.2	27.4	2.9	(3.6)	1.1	196.0



Estimate of cost savings by Fund

(Individual Fund savings have been removed for commercial confidentiality reasons)

£ in million	Estimate 2017/18	Estimate 2020/21	Estimate 2023/24	Estimate 2026/27	Estimate 2029/30	Estimate 2032/33
Cheshire Pension Fund						
Derbyshire Pension Fund						
Leicestershire Pension Fund						
Nottinghamshire Pension Fund						
Shropshire County Pension Fund						
Staffordshire Pension Fund						
West Midlands Pension Fund						
West Midlands Pension Fund ITA						
Worcestershire Pension Fund						
Total Estimate Investment Expenses	181.1	173.8	168.5	160.8	158.0	152.2
Cheshire Pension Fund						
Derbyshire Pension Fund						
Leicestershire Pension Fund						
Nottinghamshire Pension Fund						
Shropshire County Pension Fund						
Staffordshire Pension Fund						
West Midlands Pension Fund						
West Midlands Pension Fund ITA						
Worcestershire Pension Fund						
Total Estimated Cumulative Savings (compared to Base Year 2017/18)		7.3	12.6	20.3	23.1	28.9

Notes: Assumes 2017/18 forms the Base Year for quantifying estimated savings



Cost bridge: 2012/13 to 2014/15

	£m
Total investment costs 2012/13	181
Asset growth	34
Changes in asset mix	(8)
Cost savings	(11)
Total investment costs 2014/15	196



Criterion D: An improved capacity to invest in infrastructure

2. (b) Please confirm that the Pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.

LGPS Central is committed to working with other Pools and is participating in meetings of the Cross Pool Collaboration Infrastructure Group (CPCIG). The aim of the CPCIG is:

To develop a collaborative infrastructure framework that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer Funds (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.

The first meeting of CPCIG included presentations from external managers and existing joint ventures. The key messages were:

- There is an excess of capital in the market. The challenge is in deploying the capital efficiently.
- Investing requires a considerable amount of time and expertise. Significant resources and capabilities are required to manage direct.
- Experience has shown that some investors start by partnering with a Fund manager and gain access to co-investments through that manager.
- There are limitations to the amount available for co-investments and to be treated seriously by vendors, you have to prove you are a competent and credible partner, which requires committed capital and governance structures that allow you to actively engage and deploy capital at speed.
- Having access to capital is one of many criteria which are necessary for success. Replicating the scale and expense of specialist managers' resources and expertise is not a credible option even over the medium term; knowledge transfer and greater involvement is, however, both possible and desirable, as dedicated capital and resource are built.
- Co-investors should not underestimate the level of time and commitment involved in the process.
- To invest direct takes a dedicated team with the requisite skills. Experience has shown the path from investing with funds through to the capability of investing direct can take 10-15 years.
- The group/Pools need to determine the objective for the partnership and agree the scope of what will/won't be invested in.
- Advantages to co-investments through fund managers include full access to due diligence and legal documents.
- Manager and vendors prefer one point of contact (delegated to a small group) in the interests of confidentiality and time.

Following discussions within the group, the consensus from the meeting was:

- Leading on deals was not considered an option outside the UK, and would only be feasible in limited circumstances within the UK. It would be likely to be confined to smaller projects, given current and near term future levels of appropriately skilled resources.
- Given the resources currently available in the LGPS a “hybrid” model could be scaled to an LGPS model
- In a hybrid model, investing directly as a co-investor, we would rather be proactive and be of sufficient capability to ask and challenge – i.e. to be an intelligent client/partner.
- At Pool level, there is probably a need for dedicated members of staff.
- Investment criteria for individual Funds would be at a Fund level but fed into the Pool and then up to any collaborative joint pool venture.
- There are a number of solutions in the market and it is anticipated that the group will need to procure the services of a number rather than just one in order to access all relevant areas of the asset class to satisfy the risk/return requirements of individual Funds and Pools.

Representatives from LGPS Central will continue to attend meetings of CPCIG and will work towards the development of collaborative infrastructure initiatives. It is difficult to establish a firm timetable for the implementation of these initiatives as discussions are ongoing between Pools and government, but it is envisaged that plans will be finalised before the transition of assets begins in April 2018.



Criterion D: An improved capacity to invest in infrastructure

2. (c) Please attach an ANNEX setting out how the Pool might develop the capability and capacity in this asset class, through developing its own resources and/or accessing shared resources of other Pools and include a timescale for implementation of the initiative.

LGPS Central will continue to work with other Pools through meetings of the Cross Pool Collaboration Infrastructure Group (CPCIG).

Data collated from the Pool's Participating Funds indicates the following key points in relation to infrastructure:

- Target risk/return levels vary across the Funds.
- There is strong desire for long-term inflation sensitive income streams.
- Diversification from traditional asset classes is seen as important.
- A broad range of asset types are seen as suitable.
- There is a strong intention to invest in the UK but also other developed economies (such as Europe and the US). There is currently limited interest in global investment.
- There is already strong interest within the Pool for co-investments.
- There is belief that a national platform can offer part of the solution for the Pool but may not be able to cover all assets/geographies/risk appetites.

The first point particularly means that there will not be one single solution for the Pool (or other pools) to access infrastructure investment. The first meeting of CPCIG identified that a hybrid model of investing would best suit the LGPS, partnering initially with external managers through Funds and co-investments while developing resource and expertise at the Pool level.

The Pool is keen to develop internal capability within infrastructure, initially to assess Fund investments and co-investments offered by external managers and over the longer term to develop partnerships with managers and other Pools. The Pool benefits from existing internal resources at a number of Funds which are expected to give a solid foundation for the development of skills and expertise in infrastructure.

Given that the West Midlands Pension Fund is a founding investor in the Pensions Infrastructure Platform (PiP) and has a good deal of knowledge of its history and progress, it is proposed to continue discussions with PiP around a potential partnership approach or an LGPS specific fund offering. This will, however, be limited in risk/return appetite and geography and so discussions with other managers will also continue.