

APPENDIX 1

LGPS Central

Summary of LGPS Central Governance Structure

7 November 2016

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This advice note has been prepared solely for LGPS Central (and its participating authorities) to provide a summary explanation of the structure of the LGPS Central governance arrangements and may be circulated to authorities' committees when seeking approval for the structure. We do not accept liability to any other person in respect of this advice note. This note is intended to be a summary of the structure and the detailed and definitive provisions of the governance structure can be found in the company's Articles of Association, the Shareholders Agreement and the Inter Authority Agreement (containing the Joint Committee's terms of reference and constitution and the terms of reference for the Practitioners Advisory Forum).

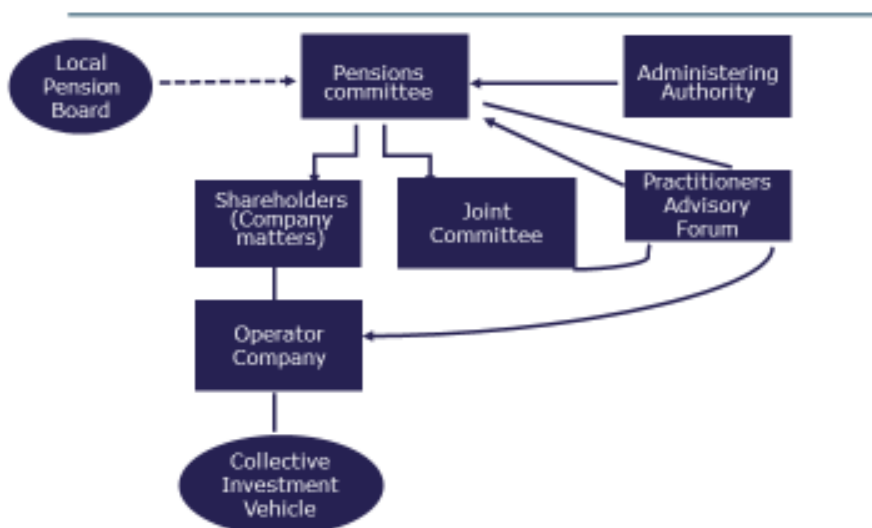
1. Background

1.1 We have been asked to provide a high level summary of the LGPS Central governance structure, in particular setting out the roles and interactions of the key bodies, including LGPS Central Limited, the shareholder representatives, the Joint Committee and the Practitioners Advisory Forum.

1.2 Please note that the administering authorities retain their core duties and responsibilities as the administering authorities of their respective LGPS funds. Administering authorities may need to review their current internal governance arrangements to see if they will need reviewing once pooling is implemented (and/or to deal with the transition period whilst assets are being moved over to the pool).

1.3 In broad terms the governance structure is summarised in the following diagram:

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2. **LGPS Central Limited**

- 2.1 LGPS Central Limited is a private company limited by shares. The company was incorporated in England and Wales on 13 October 2016 with registered number 10425159 under the Companies Act 2006. Its registered office is at Mander House, Wolverhampton.
- 2.2 The company has been formed to act as an alternative investment fund manager to run and operate one or more collective investment vehicles (including an Authorised Contractual Scheme ("ACS")) to allow the administering authorities to pool their respective investments. In due course the company will become authorised by the Financial Conduct Authority.
- 2.3 The company will be run by a board of directors which will comprise of three non-executive directors and two executive directors. Directors are appointed (and can be removed) by the shareholders.
- 2.4 The company will have eight shareholders, Cheshire West and Chester Borough Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council. West Midlands Combined Authority is not a shareholder but will be represented through Wolverhampton City Council.

3. **Shareholder Representatives**

- 3.1 Shareholder meetings will be the forum for dealing with the shareholder rights of the eight administering authorities as individual shareholders in the Operator. This is distinct from investor/customer matters dealt with by the Joint Committee (see below).
- 3.2 Each shareholder exercises one vote. Certain major decisions (e.g. changes to articles of association, rights in shares, buy-back of shares etc) which would have an effect on the shareholders' rights are usually required, through the Companies Act 2006, to be approved by the shareholders at a general meeting called by the directors of the company.
- 3.3 Shareholders can also via a 'Shareholders' Agreement' provide that the company can only take certain actions with their prior approval (such as adopting strategic plan, board changes, entry into/termination of certain key contracts, changes to key employee terms and conditions).
- 3.4 In order to retain sufficient control over the company to address 'Teckal' issues from a procurement perspective, the Shareholders Agreement needs to provide that certain key strategic shareholder decisions will require unanimous approval of all the shareholders before they can be approved at a shareholder meeting. These are known as 'reserved matters' and are set out in the Shareholders Agreement.
- 3.5 Meetings of the shareholders are subject to the requirements of the Articles of Association of the Operator, the terms of the Shareholders Agreement and general company law. They are therefore subject to different rules to a Joint Committee meeting (for example in relation to areas such as access to information and voting rules) and for this reason shareholder meetings need to be kept separate from Joint Committee meetings.
- 3.6 It is intended that shareholders will meet at least two times a year.
- 3.7 Each authority will be represented at shareholder meetings by an appointed representative of that authority. This may or may not be the same individual that represents the authority on the Joint Committee. This is a matter for each authority to decide.
- 3.8 Having different individuals at the shareholder level and on the Joint Committee would clearly help to manage conflicts of interest (should they arise) and may assist in retaining clarity of governance functions being carried out. However it should equally be possible to put in place an appropriate conflicts policy to deal with potential conflicts.

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4. **Joint Committee**

- 4.1 The Joint Committee will be the forum for discussing common investor/customer issues relating to the Operator and the ACS.
- 4.2 Each administering authority will be an individual investor in the ACS (and any other pooled vehicles managed by the Operator) and therefore each authority will have investor rights afforded by the suite of key investor documents which, in the case of the ACS, are made up of the constitutive deed, application form, key investor information, prospectus and FCA handbook of rules and guidance. These investor rights are embedded in those documents and cover matters including the right to withdraw from the pooled vehicle, investor reporting (including frequency and content) and investor voting rights (for example, on proposed changes to the pooled vehicle).
- 4.3 The administering authorities do not want to delegate their actual key investment decision making powers or investor rights to the Joint Committee. Instead these will be retained for exercise by the individual administering authorities through their pension committees in the normal way, subject to consideration of any recommendations the Joint Committee may make.
- 4.4 It is expected the Joint Committee will meet twice a year (with support from the Practitioners Advisory Forum) to discuss and agree a common consensus view on investor issues such as:
 - 4.4.1 Operator service delivery and KPIs; and
 - 4.4.2 other Pool related investment issues, for example adopting common approaches to investment policies (for example common social, environmental and corporate governance policies or policies on voting rights).
- 4.5 The Joint Committee would not make binding decisions on any of these issues but would make recommendations back to each administering authority (via the Practitioners Advisory Forum) to individually approve. Where any issues do need to be resolved, these will be decided by a majority vote and again each administering authority represented on the committee exercises one vote.
- 4.6 A joint committee structure established under the Local Government Act 1972 provides a tried and tested structure that delivers a clear and transparent separation of shareholder matters and investor/customer matters.

5. **Practitioners Advisory Forum**

- 5.1 The Forum will be made up of an officer from each administering authority (such as the Section 151 officer or a pension fund officer). The Forum is not a legal entity but a working group of officers. The terms of the Forum will be set out in an Inter Authority Agreement confirming how the Forum will be comprised, operate and be resourced and funded.
- 5.2 As this is a working group of officers, no statutory functions can be delegated to the Forum. The Role of the Forum is:
 - 5.2.1 To support the meetings of the Joint Committee and action the Joint Committee's recommendations back to the administering authorities;
 - 5.2.2 To act as a mechanism to facilitate discussions between the individual administering authorities as investors and the Operator; and
 - 5.2.3 To analyse the Pool-wide investment performance of the Operator, including its investment costs, customer service and delivery of wider investor services such as voting and responsible investment. The Forum will also review risk management and compliance arrangements from an investor perspective.
- 5.3 The Practitioners Advisory Forum would not have a formal role at shareholder meetings but could attend to deliver presentations etc.

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