

LGPS CENTRAL LIMITED

Fit for the Future

EXECUTIVE SUMMARY

February 2025



Preface by Chair of the Shareholders Forum



Cllr Carol Gahan

Chair of the LGPS Central Shareholders' Forum

On behalf of my fellow Shareholders from the eight Partner Funds in the Central Pool, I am pleased to introduce LGPS Central Limited's "Fit for the Future" transition plan.

Our pooling journey began almost a decade ago. Collectively we have already made huge progress in entrusting a large proportion of our members' assets to our pooling company, who manage and invest these on our behalf to generate returns which support the payment of pension benefits to our members. We made the decision to establish LGPS Central as a full scope FCA authorised investment manager, which put our pool and pooling company in a strong position for the future. Through our established governance arrangements, we had already developed plans to transition the majority of our assets to management by our pool company by 2028.

However, we recognise the Government's ambition to move further and faster as set out in their "LGPS: Fit for the Future" consultation. We have prepared a plan which seeks to accelerate the 2028 transition, while being mindful of the fiduciary duty to our members and employers (and ultimately our council tax payers), as well as complying with the increased level of delegation to our pooling company proposed in the consultation, and the requirements for local investing.

The LGPS is one of the world's largest funded pension schemes, managing assets worth nearly £400bn. We recognise the Government's appetite for pension funds to play a part in supporting economic growth in the UK. Where this can be aligned with our fundamental duty to protect and pay pensions, we will support our pooling company in building the capabilities required to achieve this goal.

Developing this high-level plan in the timescales required by Government has been demanding. We offer our sincere thanks to the Officers of LGPS Central Limited who have led on the production of this plan, and also to Officers of our Partner Funds, who have engaged closely with the company to develop an ambitious but realistic plan as to how our pool can best to respond to the Government's proposals and associated challenging timescales, while always seeking to achieve value for money. I would also like to thank my fellow shareholders for the insight and challenge which has been demonstrated in our own dialogue with LGPS Central colleagues during the development of this plan.

The process has been highly collaborative, and we know this will continue throughout 2025 and beyond, as we finalise our plans for the next stage of investment pooling. The Partner Funds in their role as both Shareholders and clients are committed to supporting our pool and pooling company on our continuing collective asset pooling journey.



TOGETHER IN PARTNERSHIP WITH:



Foreword by Company



Joanne Segars
Chair



Richard Law-Deeks
CEO

The Local Government Pension Scheme has seen many reforms since its creation in 1972, including the Hutton reforms and the creation of the asset pools themselves. The *Fit for the Future* proposals, arising out the Chancellor's Mansion House speech are no less significant.

LGPS Central Limited welcomes the *Fit for the Future* proposals which sets out the Government's ambitions for the next phase of LGPS pooling which we share. By providing clarity, *Fit for the Future* will enable the pool company and our Partner Funds to deliver the full potential of pooling, accelerating the journey we were already on.

However, we are under no illusions of the significance of these reforms. Once realised they will mean big changes for Administering Authorities in terms of their responsibilities and for the Company, in terms not just of *how* we operate and the scope of our activities but also the *scale* at which we operate. We do not underestimate the scale of the challenge ahead – working to a tight timescale and with additional cost and resource implications. But because of the foresight of our Partner Funds in setting up the Company as they did – with FCA authorisation, internal management capability and a strong regional focus – we are well positioned to build off these strong foundations to deliver the next stage of pooling and to be *Fit for the Future*. With the Company and Partner Funds working in partnership, which has been the hallmark of our success to date, we are confident we can meet the Government's minimum standards for pooling.

The Plan presented here developed with Partner Funds following a period of extensive consultation, is the start of a process not the end point and at this stage we cannot have all the answers as there is much still to be clarified. We will continue to iterate and refine our proposals together with our Partner Funds and as Government's policy objectives become clearer once the response to the consultation is known and legislation finalised.

To support us in this endeavour, we will also require support from Government to provide certainty over the direction of travel and to help facilitate collective ambitions for local investment.

We look forward to working together to develop and deliver our plans to support our Partner Funds to become *Fit for the Future*.

Executive Summary

We are pleased to present this summary of the Company's Plan for becoming *Fit for the Future*.

The Plan sets out how we will meet and deliver the Government's minimum standards for pooling, recognising the scale of the changes contained within the Government's proposals and the specificities of the Pool's Partner Funds.

The Plan was developed collaboratively between the Company and its Partner Funds through a process of detailed consultation. Given the scale of ambition set out in the Mansion House agenda there inevitably remain details to be finalised. Where there is not yet consensus, we will continue to work together to find solutions that work for Partner Funds and their members.

The Plan included detailed timelines, mapping of legacy assets, options analyses and a proposed future operating model. We assessed the major risks associated with the Plan for the Company and for Partner Funds as both clients and shareholders (and their mitigants) as well as anticipating budget implications. We considered the possible impacts of the Government's devolution proposals, which could have both positive and negative effects for the delivery of the plan.

We view the Plan as the start of a process, not its end point and will work together to further refine its details.

Summary of proposed approaches to meeting the minimum standards for pooling

1 Administering Authorities would remain responsible for setting a high-level investment strategy and would be required to use the pool as the principal source of advice on their investment strategy.

We plan to meet this minimum standard by creating a client-focused Investment Solutions Team, building on the existing experience and expertise within the Company. To guard against any potential conflicts of interest, this would sit outside the Investment Management Team. To ensure that Partner Funds receive the high levels of service they require, and are used to, we will invest in a small number of additional colleagues and procure appropriate systems and information sources. To help us build the necessary knowledge of Partner Funds' needs and processes, the Company intends to 'parallel run' with Partner Funds' existing advisory processes over the period to 31 March 2026. This will also help ensure the Company can fully meet Partner Funds' needs. We will work with strategic partnerships where appropriate to mitigate any challenges around scale and ensure Partner Funds have access to expertise and best practice.

2 Administering Authorities would be required to fully delegate the implementation of their investment strategy to the pool.

We are proposing that Partner Funds would retain responsibility for setting the high-level strategic asset allocation and that the Company would be responsible for the implementation of those strategies. We will deliver this by building the necessary internal capacity, leveraging our existing capabilities, including through the Investment Solutions Team we propose to create.

3 Pools would be required to be established as FCA authorised entities with FCA permissions to provide advice and implement investment strategies.

The Company is already established with the full range of FCA permissions necessary to run and operate collective investment vehicles and to provide the full range of investment services including implementation of investment strategies and the provision of advice. As the Company and its assets under management grow, we will likely become an Enhanced Firm for regulatory purposes, and we are already considering what that will mean, although it is several years away. Collectively with Partner Funds we will use this opportunity to review the governance arrangements of the LGPS Central Pool which were put in place at the outset of our activities and may no longer be appropriate for the new environment.

4 Administering Authorities would be required to transfer all assets to the management of the pool.

Our approach will be that the delegated management of all listed assets should be transferred to the Company and managed through its pooled vehicles, unless that does not make economic sense in which case the Company should be able to determine the best solution for such assets in consultation with Partner Funds. A significant amount of listed assets outside the pool can be accommodated in our existing suite of funds. In the case of illiquid assets, our approach will be to transition assets via discretionary agreements which grant the Company full delegated authority, with title remaining with the Partner Fund to avoid unnecessary tax and legal costs. We will recruit a small number of additional colleagues to manage the additional volume of assets and invest in technology solutions to support fund reporting and other services to Partner Funds.

5 Pools would be required to develop the capacity to carry out due diligence on local investments and to manage such investments.

Local investing, which we have defined as being primarily within the footprint of the LGPS Central Pool region, will be implemented principally through private markets. We will build on our existing capability to deliver this. We will build expertise to support local investment and will work closely with Partner Funds and Combined Authorities across the region as well as with other relevant partners, including other pool companies.

Collaboration with other Pools

The Company is committed to strengthening the LGPS pooling ecosystem. We are not actively seeking immediate Pool mergers. However, we are open to welcoming new Partner Funds that align with our strategic goals. We embrace collaboration and innovation to unlock long-term value, support UK economic growth, and share best practices across the sector.

Conclusions

We are committed to working together to deliver the Plan, working to the tight and challenging timescales set by Government whilst we also focus on our business-as-usual activities – providing pensions for almost one million people across our region and managing and stewarding the £45 billion that already sits with the Company and against a backdrop of local government reorganisation. We will also, therefore, need Government to work with us to deliver the certainty we require, including through legislation, if delay is to be avoided.

About LGPS Central Limited

LGPS Central Limited (The Company) is the pool company operating as investment manager and steward for eight local authority pension funds across the Midlands.

LGPS CENTRAL LIMITED AT A GLANCE

	£45bn Assets under our stewardship at 31 January 2025	£12bn Internally managed public market assets	£108m Gross savings generated to 31 December 2024	£360.7m Projected gross savings by 2033/34
	28 Funds Including two newly launched credit vintages	1st Quartile Flagship Global Equity fund performance since inception at 31 January 2025	£6bn In private market commitments by Partner Funds	87 Colleagues
	100% Responsible Investment Integrated Status	40% Colleagues with non-white ethnic background	775 Companies engaged with on ESG matters in 2023/24	2050 Net Zero commitment on assets under our stewardship
	UK Stewardship Code Signatory	25% Of private market deployed investment is in the UK	£5.2bn Pooled assets invested in the UK	£30m Invested in local NHS facilities

Our Partner Funds are Cheshire Pension Fund, Derbyshire Pension Fund, Leicestershire County Council Pension Fund, Nottinghamshire Pension Fund, Shropshire County Pension Fund, Staffordshire Pension Fund, West Midlands Pension Fund and Worcestershire Pension Fund. We believe the contiguousness of our Partner Funds is a strength and will be an asset as we step up our local investment activity. We are jointly owned on an equal-shares basis by those Partner Funds. We are one of eight Local Government Pension Scheme (LGPS) asset pools in England and Wales.

The Company opened for business in April 2018 and, since the outset, we have been authorised by the Financial Conduct Authority (FCA) as a 'full scope' firm and operate as an Alternative Investment Fund Manager (AIFM) holding a full range of permissions to run and operate one or more collective investment vehicles, including Authorised Contractual Schemes (ACSs). We are also authorised to provide additional investment services (known as MIFID top-up permissions) to our Partner Funds. As a result, we are classified as a collective portfolio management investment firm (CPMI firm) by the FCA, which enables us to provide Partner Funds with the full range of investment services (as distinct from other pools with more limited or no permissions), including investment advice and portfolio management. We believe this positions the Company well to embrace the new responsibilities the Government intends for pool companies, including being the primary provider of investment advice to Administering Authorities (AAs), and which we view as a natural extension of pooling to date.

As of January 2025, we are responsible for over £45bn of Partner Funds' assets. The Company offers funds across a wide range of investments including a £6bn plus private markets programme and a public markets programme that includes almost £12bn in funds managed by our internal passive equities and fixed income teams. Over £5bn of our pooled assets, including nearly a quarter of our deployed private markets investments, are invested in the UK including through our UK residential property fund.

Through our scale, investment expertise and commitment to good investment governance we have already delivered to our Partner Funds £108.0m in gross savings as at 31 December 2024. We are on track to deliver £360.7m of gross savings for Partner Funds by 2033/34. We have also placed an emphasis on providing our Partner Funds with value for money; our operating costs are around 5 basis points (bps), which is comparable to other well run asset owners. We would expect costs to fall as assets under management and stewardship grow.

We have just under 90 colleagues based in Wolverhampton, where we are committed to building a centre of regional and global expertise. As the home of the Company, Wolverhampton sits at the heart of a Midlands region that has long been a driver of UK economic growth, evolving from its manufacturing heritage into a hub for advanced engineering, green tech, and innovation. With excellent connectivity, a diverse and highly skilled workforce, and a strong commitment to sustainable investment, the region reflects our ambition to generate long-term value for our Partner Funds while supporting economic growth across the UK.

Guide to Abbreviations and Terms Used in this Document:

AAs	Administering Authorities
ACS	Authorised Contractual Scheme
AUM	Assets under Management
FCA	Financial Conduct Authority
Fit for the Future	Fit for the Future Transition Plan
LGPS	the Local Government Pension Scheme
Partner Funds / PFs	the eight LGPS Administering Authorities that founded and own the Company
The Company	LGPS Central Limited
The Plan	LGPS Central Limited’s plan to be Fit for the Future as submitted to Government on February 2025
The Pool	the LGPS Central Pool (the Company and the Partner Funds)
UK	United Kingdom



LGPS Central Limited

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