

LGPS Central Limited
MIFIDPRU Disclosures
May 2023

1. Background

- 1.1. LGPS Central Limited was established by eight Midlands-based local government pension funds to manage their pooled investment assets. The Partner Funds are Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. The Company is jointly owned on an equal-shares basis by the eight Partner Funds, who have combined assets of approximately £56 billion, managed on behalf of around 1 million LGPS members and over 2,300 participating employers.
- 1.2. The Company was launched in April 2018, since which time it has become responsible for the management of around £26.4 bn of its Partner Funds' assets, including £17.1 bn in its Authorised Contractual Scheme (ACS), £4.2 bn in private markets partnerships, and approximately £5.1 bn in a range of discretionary, advisory and execution mandates (February 2023). The volume of assets is expected to grow over the next few years as, in partnership with the Company's Partner Funds, new ACS sub-funds and private markets partnerships are developed and launched into which Partner Funds' assets will transition.
- 1.3. The Company operates as an Alternative Investment Fund Manager (AIFM), and as the manager and operator of a collective investment vehicle (the LGPS Central ACS). The Company is authorised and regulated by the Financial Conduct Authority (the FCA).

2. Risk Management Objectives and Policies

2.1. LGPS Central Limited has in place robust policies and procedures for the identification, monitoring and management of risk, as set out in its Risk Management Framework. The objectives of the Risk Management Framework are to:

- Set out a framework of tools and techniques which enable consistent and proactive understanding of risks and an approach to manage them;
- Define the risk management standards that LGPS Central Limited seeks to implement across both investment and non-investment risks, including corresponding roles and responsibilities;
- Establish and maintain a consistent and independent framework for risk appetite-setting and to identify, measure, monitor, manage and report significant risks across LGPS Central Limited;
- Formalise the governance structure for risk oversight by describing the role of committees and functions across LGPS Central Limited in respect to risk management.

2.2. When establishing its procedures and structures, LGPS Central Limited takes into account the principle of proportionality which allows procedures, mechanisms and the organisational structure to be calibrated to the nature, scale and complexity of the company's business, of the investments it manages and the nature and range of activities carried out in the course of its business.

2.3. LGPS Central's approach to risk management is centred on the 'Three Lines of Defence' model, as summarised below:

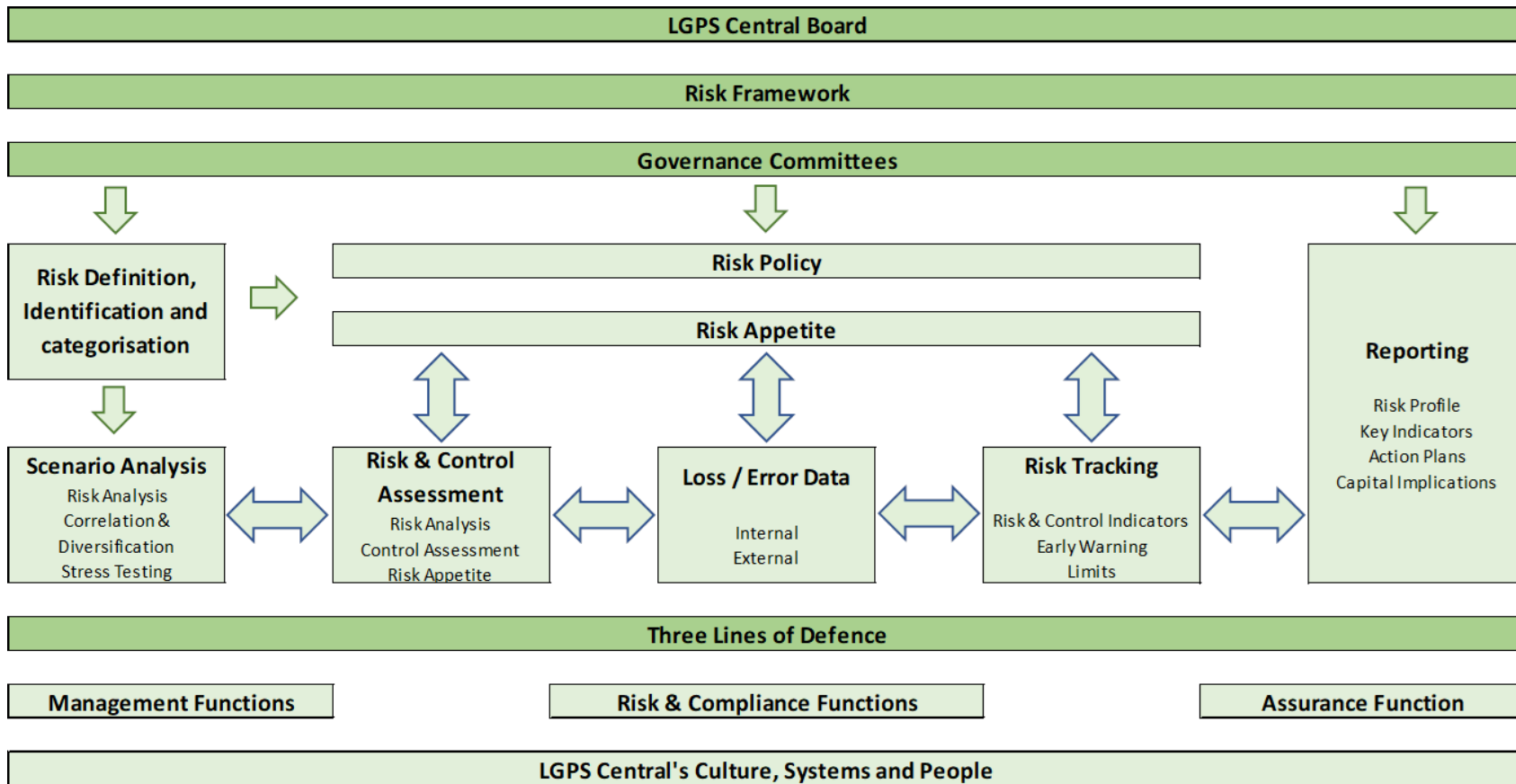
- **First Line: Management Functions.** Management of each business area is responsible for continually identifying, assessing and managing the risks within their area of duty on a day-to-day basis, regarding risk management as a crucial element of the everyday job. Managers identify and document key risks in a departmental risk register and control and allocate responsibility for them to specific staff. The company operates a framework of Risk Control Self-Assessment (RCSA) whereby the line manager responsible for a control makes a positive affirmation as to the appropriateness of design and the operational effectiveness of the control.
- **Second Line: Risk and Compliance Functions.** These functions, assisted by other central functions such as Legal and Finance, support the ARCC. The Risk function facilitates the development and implementation of processes whereby management identifies, assesses and manages the risks in their business areas and ensures that risk policies are complied with. The Compliance function identifies and assesses compliance risk and monitors

adherence to regulatory standards. This second line provides policy direction and oversees and monitors the risk framework to determine whether all key risks are being identified, assessed and controlled by management in a manner commensurate with the company's risk appetite and regulatory needs.

- **Third Line: Assurance Function.** This line, provided by Internal Audit (this function has been outsourced to KPMG), objectively assesses the adequacy and effectiveness of the processes within the first two lines of defence and provides periodic assurance on the control environment across the company. An internal audit plan is reviewed and approved by the ARCC on an annual basis and is formally reassessed and refreshed as necessary at the half-year. Findings from internal audits are discussed and agreed with management, with review dates set for follow-up of outstanding actions. A summary of findings and overdue actions is reported to the ARCC and the Board of the LGPS Central Limited.

- 2.4. The Board of Directors, whilst maintaining the overall responsibility for monitoring risk management collectively, has established an Audit, Risk and Compliance Committee (ARCC), which reports to the Board in respect of risk.
- 2.5. The company has designated the Chief Legal, Compliance and Risk Officer as the responsible person for reporting various risk management matters. The Chief Legal, Compliance and Risk Officer is responsible for establishing policies and procedures to identify, measure, manage and monitor all risks relating to LGPS Central Limited and to the Alternative Investment Funds (AIFs). The Chief Legal, Compliance and Risk Officer is independent of the portfolio management function and also has a reporting line directly to the Board/ARCC. The company has ensured that the Chief Legal, Compliance and Risk Officer and the individuals within the Risk function are of sufficient seniority and have a comparable degree of authority with other business units, including the portfolio management functions.
- 2.6. LGPS Central Limited has implemented risk management systems to identify, measure, manage and monitor all risks relevant to the AIFs' investment strategies and to which the AIFs are or may be exposed. The company has an investment strategy process which evaluates each investment strategy and takes into account the nature of the position and its size within the context of the overall strategy of the AIF to ensure that the AIF's risk profile corresponds to its size, portfolio structure, investment strategies and objectives and is not compromised by any particular position or strategy which may not fit within the defined parameters.

The following diagram illustrates LGPS Central Limited's risk management framework.



Risk Appetite

- 2.7. LGPS Central Limited has put in place a Risk Appetite Statement and Risk Tolerance Limits, which articulate the amount of risk LGPSC is willing to take and provide boundaries to when potentially too much, or too little, risk is being taken. This provides guidance to enable Management to take on the “appropriate” risks, and the “appropriate” amount of risk as part of the pursuit of its strategic objectives.
- 2.8. The limits are not intended to be applied as hard limits. Instead, they are used as a guide to drive consideration and discussion of potential actions in cases where the Risk Profile deviates from that expected/intended.

Risk Appetite Statement and Risk Tolerance Limits

- 2.9. The Risk Appetite Framework is made up of three components:
- a set of Headline Risk Appetite Statements, aligned with the key business measures – including regulatory, operational and client,
 - a set of Risk Preferences – qualitative expressions for each major risk of whether the company is seeking to take on that risk (in order to achieve a return) or reduce it, again aligned with the Company’s Business Strategy and
 - a Risk Tolerance System – measurable constraints intended to achieve/monitor items 1 and 2 above.
- 2.10. The Risk Appetite document sets out the Risk Appetite Statements (RASs), Risk Preferences and Risk Tolerance Limits (RTLs) for LGPSC. The RAS is a qualitative expression of the extent to which LGPSC wishes to accept the risk. This is supported by a number of underlying RTLs, which can be more tangibly monitored to ensure the overriding RAS is met in practice.

3. Governance Arrangements

3.1. LGPS Central Limited acknowledges that good governance is key to the effective operation of the company, and to legal and regulatory compliance, and accordingly it has put in place a robust governance structure.

3.2. The company's Board comprises a non-executive Chair and three further non-executive directors. The Chief Executive Officer (CEO) and Deputy Chief Executive (DCEO) are executive Board members. The Board is collectively responsible for promoting the success of LGPS Central Limited (having regard to the shareholders, customers and other stakeholders), setting the strategic aims and ensuring the necessary financial and human resources, whilst having regard to the reputation, financial and other risks of the company.

3.3. To support its work, the Board has established three sub-committees:

- **Remuneration Committee.** The core purpose of this sub-committee is to oversee and establish a formal and transparent procedure for developing and implementing policy on executive and non-executive remuneration; set the remuneration packages for individual executive and non-executive directors, senior staff, Code Staff and all other staff; and in the case of Executive and Non-Executive Directors make recommendations for approval to the Shareholders.
- **Audit, Risk and Compliance Committee.** The core purpose of this sub-committee is to review and provide assurance to the Board on matters including:
 - The effectiveness of LGPS Central Limited's internal controls;
 - The internal risk management framework and mitigation strategies, including internal audit;
 - The arrangements being made to ensure compliance with regulatory requirements;
 - The oversight of the external audit process; and
 - The integrity of the financial statements and the statements that relate to internal risk and financial controls.
- **Nominations Committee.** The core purpose of this sub-committee is to ensure that there is an appropriate balance of skills on the Board of LGPS Central Limited and within its senior staff so that the company can continue to conduct its business effectively.

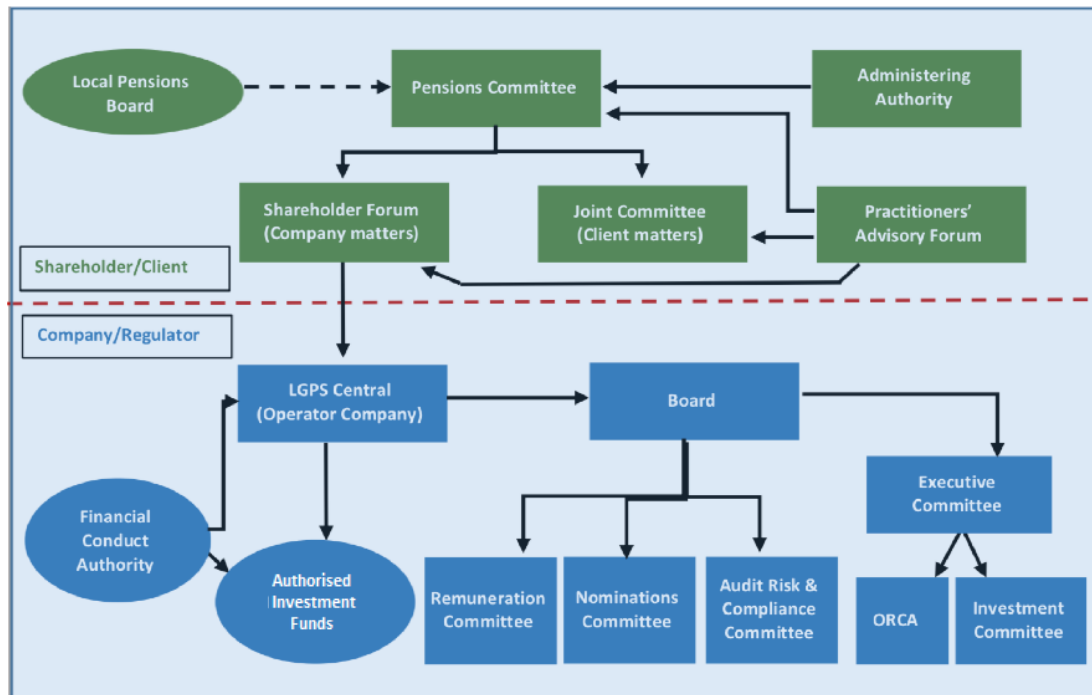
3.4. The Board has created an Executive Committee (ExCo) which is chaired by the CEO. In addition to the CEO, ExCo comprises the Deputy Chief Executive, the Chief

Investment Officer (CIO), Chief Legal, Compliance and Risk Officer (CLCRO), Chief Stakeholder Officer and the Head of Human Resources. The ExCo has primary authority and responsibility for the day-to-day management of the company's asset management business, all operational, financial, risk, compliance and legal functions, and for the formulation and implementation of the company's strategy and budget, subject to the strategy, budget, policies and delegations approved by the Board from time to time. It is also responsible for monitoring the operating and financial performance of the company, prioritising and allocating investment and resources and developing and managing the risk profile of the company.

- 3.5. The Company has also created an Investment Committee (IC) which is subordinate to ExCo and is chaired by the CIO. In addition to the CIO, the IC comprises the Investment Directors, the Director of Responsible Investment and Engagement and the Chief Legal, Compliance and Risk Officer. The IC has primary authority for the day-to-day management of the company's investment management function, and for the formulation and implementation of the company's investment strategy, product development and manufacture.
- 3.6. The Private Markets Investment Committee (PMIC) reports to the Investment Committee and has responsibility for approving the private markets investments as set out in the Delegations Process and making recommendations to the Investment Committee on investments outside that process.
- 3.7. There is also an Operations, Risk, Compliance and Administration Committee (ORCA). ORCA has primary authority for the day-to-day management of the company's support functions, and for the formulation and implementation of the company's operations and support strategy, under the direction and oversight of ExCo. ORCA's terms of reference are part of the governance, legal oversight, risk and compliance framework within which the Board, assisted by its committees and ExCo, directs the affairs of the company.
- 3.8. The Dealings and Best Execution Committee reports to ORCA and is responsible for reviewing the company's dealing activity. This includes oversight of the Order Execution Policy, best execution monitoring, broker commission arrangements, broker execution quality and regulatory reporting associated with execution arrangements.
- 3.9. The Valuations and Pricing Committee reports to ORCA and is responsible for providing oversight in respect of the valuation methodology specified in the LGPS Central Valuation and Pricing Policy such that the valuation and pricing of all assets is accurate, fair and transparent, thereby complying with the principle that all partner funds are treated fairly.

- 3.10. The Counterparty Committee reports to ORCA and is responsible for reviewing requests to engage the services of new counterparties and addressing any escalations raised regarding the performance or service of an established counterparty.
- 3.11. The following diagram illustrates the company’s governance structure, as well as the wider governance structure including the partner funds.

Company and Shareholder/Client Governance Structure



- 3.12. In addition to the high-level structure set out above, the company has in place a comprehensive operational governance structure, including a series of officer groups with clearly-defined responsibilities and terms of reference for specific functions within the company. The following diagram provides a representation of those groups (note that an update of this diagram was ongoing at the time of preparing this document).

Directorships

- 3.13. The following table sets out the directorships held by LGPS Central Limited's directors.

Name	LGPS Central Role	Total No. of Directorships*
Joanne Segars	Chair	1
Ciarán Barr	Non-Executive Director	2
Ian Armfield	Non-Executive Director	2
Susan Martin	Non-Executive Director	1
John Burns	Deputy Chief Executive Officer	-

* Excluding entities within the LGPS Central group and organisations which do not pursue predominantly commercial objectives. Information as at May 2023.

Diversity

- 3.14. LGPS Central Limited is committed to promoting equal opportunities in employment and discharging its obligations under the Equality Act 2010. All job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation (Protected Characteristics). The Company will be undertaking equality monitoring so that we are aware of our staff demographics and we can ensure our processes and systems are fair, consistent and free from bias.
- 3.15. 41% of the Company's staff represented as BAME as of 31 March 2022. There are now 16 different nationalities across the business, adding value to all we do every day. We employ 41% women and 59% men.
- 3.16. LGPS Central Limited has been monitoring the gender pay gap and distribution over the last few years. As it has fewer than 250 employees, it is not obliged to meet any statutory reporting requirements. The Board is keen to ensure that the Company remain committed to a culture of diversity and inclusion within the business.
- 3.17. It is reassuring that the Company's overall gender pay gap has been reducing over the last few years. LGPS Central Limited will continue to review its people policies and practices across the Company to support inclusivity. It has not set any specific 'targets' as it believes that it is important to recruit and promote on capability, but has been focusing on development and succession planning to ensure that it can provide opportunities to promote into senior roles.
- 3.18. The Company's median gender pay gap as of March 2022 was 41.2% (March 2021: 43.9%). The mean gender pay gap was 36.6% (March 2021: 32.2%). The main reason for this gap is that 61% of males are in middle/top management in the business. This

affects the pay distribution across the quartiles. The business has been subject to some restructuring and turnover over the last 12 months and, as a small company, minor changes in overall staffing numbers can have a big impact on the headline figures.

4. Own Funds

- 4.1. The regulatory capital of LGPS Central Limited was provided by its shareholders, the Partner Funds. In January 2018, the Partner Funds provided £16 million of capital in a combination of equity and debt.
- 4.2. At the end of March 2022, the Company had cumulative retained losses of £3.7 million, made up of pre-trading costs incurred during Company set-up (£4.4 million) net of retained profits (£0.7 million). These losses have the effect of reducing Tier 1 capital, as shown in the following table which sets out the amount of capital resources available to the firm following the audit of its 2021/22 financial statements.

Composition of Regulatory Own Funds

	Item	Amount (£000)	Cross-Reference to Following Table
1	Own Funds	12,321	
2	Tier 1 Capital	6,841	
3	Common Equity Tier 1 Capital	6,841	
4	Fully Paid-Up Capital Instruments	10,520	9
5	Share Premium	-	
6	Retained Losses	(3,679)	10
7	Accumulated Other Comprehensive Income	-	
8	Other Reserves	-	
9	Adjustments to CET1 due to Prudential Filters	-	
10	Other Funds	-	
11	(-) Total Deductions from Common Equity Tier 1	-	
19	CET1: Other Capital Elements, Deductions and Adjustments	-	
20	Additional Tier 1 Capital	-	
21	Fully Paid-Up, Directly Issued Capital Instruments	-	
22	Share Premium	-	
23	(-) Total Deductions from Additional Tier 1	-	
24	Additional Tier 1: Other Capital Elements, Deductions and Adjustments	-	
25	Tier 2 Capital	5,480	
26	Fully Paid-Up, Directly Issued Capital Instruments	5,480	6a + 7a

	Item	Amount (£000)	Cross-Reference to Following Table
27	Share Premium	-	
28	(-) Total Deductions from Tier 2	-	
29	Tier 2: Other Capital Elements, Deductions and Adjustments	-	

Own Funds: Reconciliation of Regulatory Own Funds to the Balance Sheet in the Audited Financial Statements

	Item	Balance as at 31 March 2022 (£000)	Cross-Reference to Previous Table
	Assets		
1	Right-of-Use Assets	1,237	
2	Property, Plant and Equipment	253	
3	Trade and Other Receivables	9,800	
4	Cash and Cash Equivalents	38,489	
	Total Assets	49,779	
	Liabilities		
5	Trade and Other Payables	(32,269)	
6a	Borrowing (Principal)	(4,795)	26
6b	Borrowing (Other)	(1,645)	
7a	Other Financial Liabilities (Principal)	(685)	26
7b	Other Financial Liabilities (Other)	(140)	
8	Post-Employment Benefits	(3,404)	
	Total Liabilities	(42,938)	
	Net Assets	6,841	
	Capital and Reserves		
9	Called-Up Share Capital	10,520	4
10	Retained Losses	(3,679)	6
	Total Capital and Reserves	6,841	

4.3. All shares have been authorised, issued and are fully paid.

4.4. 'A' shares carry voting rights and dividend entitlements and are held in equal share by LGPS Central Limited's eight Partner Funds. There are eight 'A' shares, each with a par value of £1.

- 4.5. 'B' shares are held in equal share by LGPS Central Limited's eight Partner Funds. There are 10,520,000 'B' shares, each with a par value of £1.
- 4.6. 'C' shares are preference shares and are held by West Midlands Pension Fund only, paying a dividend of 4.5% above the Bank of England base rate. The preference shares are classified in the Statement of Financial Position as other financial liabilities (and not share capital). There are 685,000 'C' shares, each with a par value of £1.

5. Own Funds Requirements

5.1. The following table provides a summary of the Company's position with regard to its own funds requirement as at 31st March 2023.

	Capital Requirement March 2023 £000
Own Funds Requirement (OFR) as at March 2023	
K-Factor requirement (1)	5,764
Fixed Overhead Requirement ("FOR") (2)	3,246
Permanent Minimum Regulatory Capital (3)	75
Total Own Funds Requirement (the higher of (1), (2) and (3))	5,764
Additional risk of harm: Assessment (A) from ongoing operation of the company's business	
K-Factor requirement (as above)	5,764
Additional own funds for potential harms to client and markets mapped to K-AUM	-
Additional own funds for potential harms to client and markets mapped to K-Other	-
Additional own funds for potential harms to firm mapped to K-Other	240
Total for Assessment (A)	6,004
Additional risk of harm: Assessment (B) from wind-down of the company's business	
	4,569
Total Own Funds Threshold Requirement (the higher of PMR and Assessment (A) or (B))	6,004

5.2. The following table provides an analysis of the Company's K-Factor Requirement.

	Capital Requirement March 2023 £000
The sum of K-AUM, K-CMH, K-ASA Requirements	5,764
The sum of K-COH, K-DTF Requirements	-
The sum of K-NPR, K-CMG, K-TCD, K-CON Requirements	-
Overall K-Factor Requirement	5,764

5.3. The Company's Fixed Overhead Requirement is equal to one quarter of its operating expenditure from its most recent audited financial statements.

5.4. LGPS Central Limited has a robust process in place for the preparation, review and approval of its Internal Capital Adequacy and Risk Assessment document (ICARA).

5.5. LGPS Central Limited believes that it has sufficiently robust internal controls to identify and manage risks, and that these are accurately reflected in the ICARA. The analysis of potential harms, as set out in the ICARA, is clearly linked to the risk register generated through the Company's embedded risk management procedures.

5.6. The level of the Company's funds with reference to its Own Funds Requirement is monitored by the Finance team and forms part of regular financial management reporting to the ExCo.

5.7. The Board is responsible for approving the ICARA, on the recommendation of the Audit, Risk and Compliance Committee.

5.8. The following table shows how the Company's own funds threshold requirement relates to its own funds, the resulting headroom and cover.

	March 2023 £000
Own Funds Threshold Requirement	6,004
Own Funds	12,321
Own Funds Headroom	6,317
Own Funds as a % of OFTR	205.2%

5.9. In conclusion, having considered and evaluated the risks to which LGPS Central Limited is exposed, the Company believes that it has sufficient available assets to fulfil its regulatory capital requirement, and furthermore expects this to be the case for the medium term.

6. Remuneration Policy and Practices

6.1. The Board has established a Remuneration Committee, the core purpose of which is to oversee and establish a formal and transparent procedure for developing and implementing policy on executive and non-executive remuneration, including:

- setting the remuneration packages for individual executive and non-executive directors, senior staff and others, and
- in the case of executive and non-executive directors, to make recommendations for approval to the Shareholders.

6.2. The Remuneration Committee is made up of:

- Susan Martin (Chair of the Committee and Non-Executive Director)
- Joanne Segars (Chair of the Board)
- Ciarán Barr (Non-Executive Director)

6.3. The Company's culture and purpose is as follows:

- The Company's culture is based on an ethos of openness, accountability, professionalism, honesty, integrity, fairness and trust.
- The Company's purpose is to align its activities with the interests of its clients and shareholders (stakeholders) and, ultimately, to create sufficient value for the Partner Funds to meet their pension obligations in full.

The Company has adopted a Remuneration Policy, which is developed by the Remuneration Committee and subject to majority shareholder approval. The Remuneration Policy supports the Company's culture and purpose.

6.4. The Remuneration Policy is intended to deliver fair rewards to all staff who contribute positively to the Company's culture and purpose, and will recognise in particular those staff members whose contribution has consistently been exceptional, so as to create alignment with the interests of its Stakeholders.

6.5. The Company does not pay bonuses. It does not have the commercial objectives of private sector asset managers and so has no need to incentivise behaviour which drives profitability above that required for the Company to be sustainable and which may otherwise create incentives which are not aligned with those of its stakeholders.

6.6. The reward elements of the Company's Remuneration Policy are restricted to salary, pension and life insurance. The salary band, pension and life insurance provision are set by reference to its staff grades. These are all classed as fixed.

6.7. The extension of the Senior Managers and Certification Regime (SM&CR) to all authorised firms applied to the company from 9th December 2019. The aim of SM&CR is to reduce harm to consumers and to strengthen market integrity by making individuals more accountable for their conduct and competence, by actively

promoting a culture in which staff of all levels take personal responsibility for their actions, and to make sure that firms and staff clearly understand and can demonstrate where responsibility lies. The company has responsibility for staff being fit and proper and for ensuring that there are high standards of conduct across the company.

6.8. As part of its implementation of SM&CR, the company has categorised staff into three categories:

- **Senior Managers** - a handful of the most senior individuals at the company with designated Senior Manager and prescribed responsibilities.
- **Certified Persons** – broadly speaking, all previously Approved Persons who were not Senior Managers, as well as a few other staff members (primarily people in their managerial line).
- **Conduct Regime Staff** – everyone else who works in or for the organisation, other than a small number of staff members who perform purely administrative tasks.

6.9. The following table provides a summary of remuneration payable to senior management, other material risk takers and other staff in 2021/22 (all this remuneration is classed as fixed). The Company has aggregated the information for senior management and other material risk takers in accordance with MIFIDPRU 8.6.8 (7).

	Salaries £000	Social Security Contributions £000	Employer's Pension Contributions £000	Total £000
Senior Management and Other Material Risk Takers	1,062	137	29	1,228
Other Staff	3,485	461	551	4,497
Total	4,547	598	580	5,725