

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 5th September 2018
<b>Report Subject</b>	Active Global Equity Transition
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

The Clwyd Pension Fund is a Constituent Authority of the Wales Pension Partnership (WPP) which has two active global equity funds within the Authorised Contractual Scheme (ACS) approved by the Financial Conduct Authority (FCA) now available for investment.

The Clwyd Pension Fund has a strategic allocation of 4% to active global equity. The mandate with a current value of circa £80m has been managed by Investec Asset Management since 2007. These assets should now be transferred to the WPP ACS in line with both the WPP Inter-Authority Agreement (IAA) and the Fund's Investment Strategy Statement (ISS).

Officers and Investment Consultant have reviewed the two funds available and concluded that all the Fund's allocation should be transferred to the 'Global Equity Opportunities Fund' managed by Russell Investments as opposed to the Global Equity Growth Fund managed by Link Asset Services, or allocating to both. Under the 'Delegation of Functions to Officers by the Pension Fund Committee' this requires ratification by the Committee.

Under the terms of the IAA the timing of the transition is a reserved matter for this Committee. This report recommends that the timing is now delegated to officers after considering advice from a specialist transition manager.

### RECOMMENDATIONS

1	That the Committee ratify the decision to invest in the Wales Pension Partnership Global Equity Opportunities Fund which will be funded from the current active global equity mandate with Investec Asset Management.
2	That, in accordance with the reserved matter requirements of the IAA regarding the timing of the transition, the Committee agree that these assets should be transitioned in the coming months having regard to the advice of a specialist transition manager.

3	That the Committee delegate the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) after considering advice from that specialist transition manager.
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## **REPORT DETAILS**

<b>1.00</b>	<b>Active Global Equity Transition</b>
1.01	As reported in Agenda Item 6 Pooling Investment in Wales, the Wales Pension Partnership (WPP) has two active global equity funds within the Authorised Contractual Scheme (ACS) approved by the Financial Conduct Authority (FCA) now available for investment. The WPP is appointing a transition manager to manage the transition of circa £3.4bn of assets between the seven constituent authorities who plan to invest in one or both of these funds. Subject to formal approval by each authority, initial estimates are that 3 will invest £1.9bn in the Global Equity Growth Fund with Link as contracted investment manager and 6 investing £1.5bn in the Global Equity Opportunities Fund with Russell as the contracted investment manager.
1.02	The Clwyd Pension Fund has a strategic asset allocation of 4% or circa £80m to active global equity. The Fund's mandate has been managed by Investec since 2007 but to comply with the MHCLG's Statutory Guidance, WPP IAA signed by the Fund and the Fund's own ISS this mandate should now be transferred to the WPP ACS. Under the terms of the IAA the timing of the transition of these assets is a reserved matter for this Committee. Under the 'Delegation of Functions to Officers by the Pension Fund Committee' the selection, appointment and dismissal of Fund Managers (i.e. which Fund to transfer the assets to is delegated to the Clwyd Pension Fund Manager, Corporate Finance Manager and Chief Executive (having regard to ongoing advice of the Investment Consultant) and subject to ratification by Pensions Fund Committee.
1.03	<p>Officers representing the Clwyd Fund on the WPP Officer Working Group have been working with both Link and Russell on finding suitable solutions which meet the objectives of the Clwyd Fund, as well as for the other six pension funds requiring active global equity exposure.</p> <p>Both the funds available are a multi-manager solution and under the terms of the Operator Agreement have been developed on a 'Consultative Basis' as opposed to 'Non-Consultative'. This means that although Link and Russell are the contracted investment managers they then appoint several fund managers to deliver the mandate. However, due to the Consultative nature of the approach, the WPP Joint Governance Committee (JGC) have the final approval on the underlying fund managers used. The Operator agreement allows the WPP to move to a Non-Consultative approach in the future.</p> <p>In terms of the underlying fund managers, the Clwyd Fund Officers have considered information provided by the contracted investment managers and after taking advice from our investment consultant are satisfied with the underlying fund managers being used.</p>

1.04	<p>The two funds will be managed by the contracted investment managers in different ways. The Global Equity Opportunities Fund managed by Russell will combine 3 global fund managers, with different investment styles and 4 regional fund managers which specialise in US, European, Japanese and Emerging Markets. Russell believe through their research and experience that this approach provides the best risk/return profile through different market cycles. Russell will actively manage the risks within the portfolio and weighting of the assets between the underlying fund managers. The two senior portfolio managers, Neil Jenkins and William Pearce have over 10 years' experience of successfully managing Global Equity mandates on this basis. This process has been reviewed by Clwyd Fund Officers and the Fund's investment consultant who are satisfied with this approach and hence this report asks for ratification to transition to this Russell managed fund.</p> <p>The Global Equity Growth Fund will have 3 global fund managers, each with a different investment styles, two of which are fund managers currently mandated by several WPP constituent authorities. They are different to the three global fund managers in the 'Opportunities Fund'. Russell's expectation is the excess return for the Global Equity Growth Fund will be lower, the tracking error (risk) higher and the expected average manager cost higher. Albeit the differences are marginal and other opinions are valid.</p>
1.05	<p>According to Russell there is a value for money improvement of 1.71% p.a. by transitioning to the Global Equity Opportunities Fund from the Clwyd Fund's current mandate with Investec:</p> <ul style="list-style-type: none"> <li>• Potential excess return improvement of 1.25% p.a.</li> <li>• Likely withholding tax recapture of 0.19%</li> <li>• Russell proprietary trading techniques of 0.08%</li> <li>• Lower manager fees of 0.19%</li> </ul> <p>The potential excess return is open to challenge, as there can never be any certainty when forecasting equity market cycles or fund manager performance. The current target performance of the Investec mandate is +3% gross of fees above the benchmark. Russell expected excess return gross of fees is 2% for the 'Opportunities Fund' but at a lower risk with an expected tracking error of 1.3% p.a. Despite adding considerable value, at this point in time, Investec have not achieved the +3% target since the Fund's inception which maybe proves Russell's expectations are more reasonable for target return.</p>
1.06	<p>Hence in summary, both Clwyd officers and JLT are satisfied that the Global Equity Opportunities Fund managed by Russell should prove a better risk and return profile at a lower cost than the current Investec mandate or the alternative Global Growth Equity Fund and concluded that the assets in the current Investec mandate should transfer to that Fund. For this mandate, at least in theory, the Clwyd Fund should benefit from the Government's pooling initiative. The Committee is therefore asked to ratify the decision to invest in the Wales Pension Partnership Global Equity Opportunities Fund which will be funded from the current active global equity mandate with Investec Asset Management.</p>

1.07	Under the terms of the IAA the timing of the transition is a reserved matter for this Committee. Accordingly it is proposed that the Committee agree the transition of these assets should take place over the coming months having regard to the advice of a specialist transition manager. The Committee is asked to delegate the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) i.e. Clwyd Pension Fund Manager and/or Pension Finance Manager after considering advice from that specialist transition manager.
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2018/19 budget. The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Pension Finance Manager on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations.
4.02	This risk has been identified as significant in the Fund's risk register.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<ul style="list-style-type: none"> <li>• Earlier Committee reports on the progress of the WPP.</li> <li>• The Wales Pension Partnership Inter-Authority Agreement.</li> </ul>

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7.00	GLOSSARY OF TERMS
7.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) <b>Inter-Authority Agreement (IAA)</b> – the governance agreement between the eight Wales pension funds for purposes of pooling</p> <p>(f) <b>Wales Pension Partnership (WPP)</b> – the name agreed by the eight Wales pension funds for the Wales Pool of investments</p> <p>(g) <b>The Operator</b> – an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link</p> <p>(h) <b>Financial Conduct Authority (FCA)</b> – the regulator of the financial markets and financial services firms in the UK</p>