

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 th February 2019
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The project to pool investments across the eight LGPS funds in Wales continues with the recent focus on the transition of global equity assets, issuing the UK and European equity prospectus to the Finance Conduct Authority (FCA) and continuing work on the fixed income strategy.

The Joint Governance Committee (JGC) meeting on 31st January 2019 was cancelled due to the weather conditions. The agenda included finalising the Fixed Income sub funds and the development of a Responsible Investment Policy. These decisions are now deferred to the next JGC on 27th March 2019.

The Officer Working Group (OWG) have been considering whether the Wales Pension Partnership (WPP) should participate in Stock Lending. The only method of efficient implementation is for all eight Wales funds to agree. It is recommended that the Clwyd Fund should agree to stock lending by WPP.

An informal consultation has begun on statutory guidance which sets out the requirements on administering authorities in relation to pooling LGPS assets. A response drafted by officers with advice from our consultants is enclosed, however it is important that this reflects the view of this Committee. Hence there is a recommendation that this is discussed and any agreed changes to the draft delegated to the Clwyd Pension Fund Manager to incorporate before submitting. The WPP JGC will also be responding to the consultation.

The next meeting of the Officer Working Group is 7th March 2019.

RECOMMENDATIONS

1	That the Committee note the report and discuss progress being made by the Wales Pension Partnership.
2	The Committee agree that the WPP can participate in Stock Lending.
3	The Committee discuss the informal consultation response and delegate agreed changes to be made by the Clwyd Pension Fund Manager.

REPORT DETAILS

1.00	Pooling Investment in Wales
1.01	<p>This update report follows a series of previous reports on the progress of the work of the Wales Pension Partnership (WPP). The previous report explained that Legal & General Investment Management (LGIM) had been appointed as the transition manager for the global equity sub funds. To update, the Clwyd Fund transitioned 4% of total Fund assets from the current Investec global equity mandate (circa £75m) to the WPP Authorised Contractual Scheme (ACS) on 14th January 2019.</p> <p>The transition manager has been providing the OWG with weekly update calls on progress and the outcome will be summarised in a post trade report. This will be reviewed by Hymans Robertson who have been appointed to oversee the efficiency of the transition. This will highlight the costs of the transition and any impact on investment performance during the transition. This is a major pooling milestone for the Clwyd Pension Fund and the WPP. The final outcome will be reported to this Committee and it will be the first opportunity for us to consider the costs of the transition against fund management fee savings. The Host Authority are working with the Operator on investment reporting to the funds going forward.</p>
1.02	<p>The most recent JGC is still the 25th September 2018, as the planned JGC for the 31st January 2019 was cancelled due to the poor weather conditions in Mid Wales. Although, the minutes of the September JGC have not been formally agreed as a correct record they are attached as Appendix 1, as previously agreed. The main decision related to the sub fund proposals for UK and European Equity which were agreed by the JGC. The Clwyd Fund does not currently have a strategic allocation to these regional equity mandates, hence is not participating in this tranche. To update the prospectus is now with the FCA for approval. No launch date has been agreed.</p> <p>The cancelled JGC agenda included:</p> <ul style="list-style-type: none">• A presentation by Link and the Host authority on progress• Responsible Investment – Development of Policy• MHCLG consultation on asset pooling (as discussed in this report)• Presentation on Fixed Income Sub Funds for decision (private) <p>Despite the absence of a JGC there have been several OWGs and weekly calls to ensure the pooling project continues. The next OWG is 7th March and next JGC is 27th March, which will be longer to catch up on the agenda items above.</p>
1.03	<p>The next tranche is fixed income which includes allocations to government stocks, corporate bonds and multi asset credit. As previously reported Clwyd Pension Fund's officers and investment consultant have outlined our current strategic requirements to the Operator. Although, the details must remain confidential, and not yet agreed by JGC, CPF officers and advisors can confirm that the multi asset credit solution to be</p>

	recommended meets our strategic requirements. It is anticipated that this fund will be launched in late June and recommendation will be made to the 12 June 2019 Committee.
1.04	<p>The OWG have been considering whether to recommend to the JGC that the WPP should participate in a Stock Lending programme. In this case all eight funds must agree otherwise separate sub funds would need to be created which is not practical or efficient. The definition of stock lending has been added to the glossary of terms in 7.01 below.</p> <p>From a Clwyd Pension Fund point of view, this is very low impact given our low allocation to equities, hence income and risks from such a programme will be low. The Clwyd Pension Fund Manager can provide more details on stock lending including, process, risks (very low) and implications for voting stocks (which can be partly mitigated) if necessary. However, in this case the recommendation is that the Clwyd Fund should agree to stock lending as a benefit to the WPP as a whole. For information, the Clwyd Pension Fund has participated in stock lending in the past when investments were made through segregated mandates. A small amount of income was earned and there were no issues.</p>
1.05	Clwyd Pension Fund officers remain involved in the work of the WPP and the national asset pooling programme. The Deputy Head of Clwyd Pension Fund represents Wales at the national Infrastructure Cross Pool and Responsible Investment Cross Pool meetings and, at the request of the Host Authority, has also represented WPP at national Cross Pooling meetings.
1.06	<p>The MHCLG have issued an informal consultation which sets out the requirements on administering authorities in relation to the pooling of LGPS assets. Both the consultation and the draft response which includes the view and opinions of officers and advisors are attached as Appendices 2 and 3. These include comments on structure and scale, governance, transition of assets, making new investments outside the pool and reporting. The response is from this Committee, hence it is important that it is discussed, and changes and additions made to reflect an agreed position, which can then be delegated to the Clwyd Pension Fund Manager to incorporate into the final response.</p> <p>The WPP will also respond which will be considered by the OWG and agreed by the JGC.</p>
1.07	The vacant Senior Financial Services Officer at the Host Authority has now been filled and the successful person commenced the position on 4 February 2019.

2.00	RESOURCE IMPLICATIONS
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 (within the separate business plan report for this meeting). 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 Deputy Head of Clwyd Pension Fund 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.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
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.

5.00	APPENDICES
5.01	Appendix 1 – Minutes of WPP JGC 25 th September 2018 Appendix 2 - Statutory Guidance on asset pooling in LGPS Appendix 3 - Draft Response to statutory guidance on asset pooling

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<ul style="list-style-type: none"> • Earlier Committee reports on the progress of the WPP. • The Wales Pension Partnership Inter-Authority Agreement. <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	(a) The Fund – Clwyd Pension Fund – 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

- (b) **Administering authority or scheme manager** – 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.
- (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund
- (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (e) **Inter-Authority Agreement (IAA)** – the governance agreement between the eight Wales pension funds for purposes of pooling
- (f) **Wales Pension Partnership (WPP)** – the name agreed by the eight Wales pension funds for the Wales Pool of investments
- (g) **The Operator** – 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
- (h) **Financial Conduct Authority (FCA)** – the regulator of the financial markets and financial services firms in the UK
- (i) **Stock – Lending** – is the act of loaning a stock to an investor. This requires the borrower to put up collateral whether cash or security. When a stock is loaned the title and ownership are transferred to the borrower.