

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12 th June 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, the planned transition of the UK and European equity mandates and continuing work on the fixed income strategy.

The last Joint Governance Committee (JGC) meeting was held on 27th March 2019 and the agenda included the workplan and budget for 2019-20, finalising the Fixed Income sub funds and the development of a Responsible Investment Policy.

The next JGC is being held in Cardiff on June 28th 2019. The agenda has not yet been published but will include the final recommendation for the fixed income sub funds (see agenda item 18) and an update on the Wales Pension Partnership (WPP) Responsible Investment Policy.

The Host Authority met with the Chairs of the 8 Welsh Pension Fund Local Boards on 2nd April 2019 to discuss concerns previously raised by some of the Board Chairs.

The Officer Working Group (OWG) have been in discussions with Russell Investments and bfinance to consider how to implement investing in Alternative assets through the WPP. This work is still ongoing and is on the agenda for the next Officer Working Group to be held on June 6th 2019.

The Clwyd Fund has 25% of assets invested in alternatives so this exercise is very important and will have a major impact on future investments.

RECOMMENDATIONS

1	That the Committee note the report and discuss progress being made by the Wales Pension Partnership.
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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 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, Legal & General Investment Management presented a post trade report to the Chairs of the 8 Welsh Pension Fund Committees in a meeting held after the JGC on 27th March 2019. This has been 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. The final outcome of that report has yet to be delivered but once known, will be reported to this Committee.</p> <p>At a high level, we know the overall cost of the transition and fees previously paid to Investec and fees to be paid to Russell and Link.</p> <p>As a comparison, the fees which would have been paid to Investec would be £152k per annum higher than those which will be paid in total to Link and Russell based on a valuation of £78.7m.</p> <p>The Clwyd Fund's share of the £9.2m of transition costs for the Global Opportunities Fund was £364k.</p> <p>In purely monetary terms this would mean payback of transition costs in 2 years and 5 months. This does not take into effect any differences in improved (or reduction) of asset returns.</p>
1.02	<p>The most recent JGC was 27th March 2019. The agenda is attached as Appendix 1 and the minutes of that meeting as Appendix 2. The main decision related to the sub fund proposals for the fixed income sub funds. The Clwyd Fund decision as to which sub fund to invest is covered in agenda item 18.</p> <p>The JGC agenda included :</p> <ul style="list-style-type: none"> • A presentation by Link and the Host authority on progress • Budget 2019-20 (Attached Appendix 3) • Workplan 2019-20 (Attached Appendix 4) • Responsible Investment – Development of Policy • MHCLG consultation on asset pooling (WPP response, attached as Appendix 5) • Presentation on Fixed Income Sub Funds for decision (private) – covered in agenda item 18 <p>There have been several OWGs and weekly calls to ensure the pooling project continues. The next OWG is 6th June and the next JGC is 28th June 2019.</p>
1.03	The Host Authority met with the Chairs of the 8 Welsh Pension Fund Local

	<p>Boards on 2nd April 2019 to discuss concerns previously raised by some of the Board Chairs. The meeting included presentations from officers of the Host Authority and Link Fund Solutions. All attendees confirmed the meeting had been very positive and it was agreed that a formal forum would be arranged on a biannual basis with invitations to each Pension Board Chair (or their nominated representative).</p> <p>This was deemed to be beneficial to the strengthening of the overall governance of the WPP and it was agreed to obtain advice from the WPP legal advisors in relation to incorporating this into the Inter Authority Agreement.</p>
1.04	<p>It was reported to the last Committee that 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 Committee agreed at the February meeting (5 votes for, 2 against) that the Clwyd Fund would participate in the programme. The concerns raised by the Committee during the discussions were also fed back to the OWG at their next meeting.</p> <p>All 8 Pension Funds have now agreed to participate in the programme which has not yet commenced.</p>
1.05	<p>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.</p>
1.06	<p>It was reported to the previous Committee that the MHCLG had issued an informal consultation which set out the requirements for administering authorities in relation to the pooling of LGPS assets. The Clwyd Fund draft response was discussed and changes delegated to the Clwyd Pension Fund Manager.</p> <p>The WPP response was considered by the OWG and agreed by the JGC on 27th March 2019. (Attached at Appendix 5)</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>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 2019/20 budget. The estimated Operator costs are also included within that budget.</p>
2.02	<p>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</p>

	continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.
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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 – Agenda WPP JGC 27 th March 2019 Appendix 2 – Minutes WPP JGC 27 th March 2019 Appendix 3 – WPP Budget 2019-20 Appendix 4 – WPP Workplan 2019-20 Appendix 5 – WPP 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	<p>(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</p> <p>(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.</p> <p>(c) The Committee – Clwyd Pension Fund Committee - the Flintshire</p>

	<p>County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) Inter-Authority Agreement (IAA) – the governance agreement between the eight Wales pension funds for purposes of pooling</p> <p>(f) Wales Pension Partnership (WPP) – the name agreed by the eight Wales pension funds for the Wales Pool of investments</p> <p>(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</p> <p>(h) Financial Conduct Authority (FCA) – the regulator of the financial markets and financial services firms in the UK</p> <p>(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.</p>
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