



City and County of Swansea

Notice of Meeting

You are invited to attend a Meeting of the

Pension Fund Committee

At: Committee Room 6, Guildhall, Swansea - Guildhall, Swansea

On: Thursday, 30 November 2017

Time: 10.00 am

Chair: Councillor Clive Lloyd

Membership:

Councillors: P Downing, M B Lewis, D G Sullivan, W G Thomas and M Thomas

Neath Port Talbot Council Co-opted Member: Peter Rees

Advisors: V Furniss, W Marshall, N Mills

Agenda

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www.swansea.gov.uk/DisclosuresofInterests | |
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Next Meeting: Thursday, 15 March 2018 at 10.00 am

Huw Evans

Huw Evans
Head of Democratic Services
Thursday, 23 November 2017

Contact: Democratic Services: - 636923



City and County of Swansea

Minutes of the Pension Fund Committee

Committee Room 6, Guildhall, Swansea

Thursday, 14 September 2017 at 10.00 am

Present: Councillor C E Lloyd (Chair) Presided

Councillor(s)

M B Lewis
M Thomas

Councillor(s)

D G Sullivan

Councillor(s)

W G Thomas

Neath Port Talbot County Borough Council Councillor:

P A Rees

Officer(s)

Karen Cobb
Jeffrey Dong
Allison Lowe
Lynne Miller
Ben Smith
Stephanie Williams

Senior Accountant
Chief Treasury & Technical Officer
Democratic Services Officer
Principal Pensions Manager
Section 151 Officer (Part of meeting)
Principal Lawyer

Apologies for Absence

Councillor(s): P Downing

22 Disclosures of Personal and Prejudicial Interests.

In accordance with the Code of Conduct adopted by the City & County of Swansea, the following interests were declared:

Councillor C E Lloyd declared a personal interest in the agenda as a whole – father is a member of the Local Government Pension Scheme.

Councillor M B Lewis declared a personal interest in the agenda as a whole – member of the Local Government Pension Scheme.

Councillor P Rees declared a personal interest in the agenda as a whole – Daughter-In-Law is a member of the Local Government Pension Scheme.

Councillor D G Sullivan declared a personal interest in the agenda as a whole – in receipt of a Local Government Pension from Dyfed Pension Fund and Daughter-In-Law is a member of the Swansea Local Government Pension Scheme.

Councillor M Thomas declared a personal interest in the agenda as a whole – member of the Local Government Pension Scheme and my wife is in receipt of the Local Government Pension Scheme.

Councillor W G Thomas declared a personal interest in the agenda as a whole – member of the Local Government Pension Scheme.

23 Minutes.

Resolved that the Minutes of the Pension Fund Committee held on 13 July 2017 be signed and approved as a correct record.

24 ISA 260 Report.

David Williams, Financial Team Leader, Wales Audit Office (WAO) presented a report that set out for consideration the matters arising from the audit of the financial statements of the Pension Fund for 2016-2017 which required reporting under ISA 260.

It was the Auditor General's intention to issue an unqualified report on the Pension Fund's 2016-17 financial statements once the Authority have provided the Wales Audit Office with a Letter of Representation based on that set out in Appendix 1.

The proposed audit report was set out in Appendix 2. The Pension Fund was included within the Council's main financial statements and therefore the opinion shown was that proposed for the Council's main financial statements incorporating the Pension Fund.

It was outlined that there were misstatements that had been corrected by management, but which the WAO considered should be drawn to our attention due to the relevance to our responsibilities over the financial reporting process. They were set out with explanations in Appendix 3. These amendments had no impact on the Fund Account but the value of investments in the Net Assets Statement was increased by £2.3 million. It should be recognised these were not misstatements but valuations included in the financial statements based upon the only available estimated information available at time of compilation. When the subsequent actual valuations became available, during the audit, the financial statements were amended. There were also a number of other presentational amendments made to the draft financial statements arising from the audit.

The recommendations arising from the financial audit work were set out in Appendix 4. Management had responded to them and the WAO would follow up progress during next year's audit. Where any actions were outstanding, they would continue to monitor progress and report it in next year's report.

Resolved that the contents of the report be noted.

25 Annual Report 2016/17.

The Chief Treasury and Technical Officer presented the Annual Report for the City & County of Swansea Pension Fund for 2016/17 for approval.

The Wales Audit Office had audited the Pension Fund Annual Report 2016/17 in line with their audit plan presented to Pension Fund Committee earlier in the year.

The City & County of Swansea Pension Fund Annual Report 2016/17 was located at Appendix 1.

It was noted that there was an error on page 74 of the agenda pack – the wording at the bottom of the page should read “Increase in Fund Value” rather than “Decrease in Fund Value”.

Resolved that the City & County of Swansea Pension Fund Annual Report be approved.

26 Breaches Report.

The Principal Pensions Manager presented a ‘for information’ report to present any breaches which had occurred in the Pension Fund in accordance with the Reporting Breaches Policy. The Reporting Breaches Policy had been adopted with effect from 9 March 2017.

The Breaches Report was attached at Appendix A. Since the last report on 13 July 2017, 32.71% of retirement lump sums had not been paid within the benchmark; however further investigation had ascertained that all late payments were made as a result of members not returning the appropriate paperwork in order to make payment. Communication sent to members at time of retirement had been reviewed to ensure that the importance of timely return of required documents was highlighted.

The Fund requires that employers pay employee and employer contributions to the Fund on a monthly basis and no later than 19 of the month after which the contributions had been deducted. There had been a number of instances during the reporting period where breaches had occurred. In each case, Treasury Management staff had written to the employers to request payment and provide a reminder of the responsibilities to submit on time.

27 MIFID II.

The Chief Treasury and Technical Officer and Investment Consultant presented a ‘for information’ report that informed the Pension Fund Committee on MIFID II and its potential impact on the LGPS nationally and locally.

The potential impact on the LGPS, the proposed assessment required and the way forward were outlined.

Resolved that the Pension Fund Committee:

- 1) Noted the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018;
- 2) Approved the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;
- 3) In electing for professional client status, the committee acknowledged and approved to forgo the protections available to retail clients.
- 4) Delegated the Section 151 Officer the appropriate approvals for the purposes of completing the applications and determining the appropriate basis of the application.

28 Corporate Actions.

The Chief Treasury and Technical Officer provided a report to monitor opportunities to recover losses as a result of violation of US Securities laws.

He reported on the background to this item, the differences between Investor Cases in the US, the UK and other countries; current participation in US class actions and outlined a way forward.

Resolved that BR&B be engaged as outlined in 4.1 (i) and (ii) of the report.

29 GMP Reconciliations.

The Principal Pensions Manager presented a report on the Fund's current position with regard to GMP reconciliation and approve the procedure required to complete the GMP Reconciliation exercise within the timescale available.

A briefing report had been provided at the last meeting to update the Committee on the current position regarding the GMP Reconciliation exercise, which was included as Appendix A. The original report to the Committee on 12 March 2015 was outlined at Appendix B.

This report requested approval for the conclusions reached as a result of a review of the current position and the consideration of the different options available for successful completion of the exercise within the timescale available.

It was Resolved that the press and public be excluded from the Committee in accordance with Paragraph 16 Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 to enable the Committee to take legal advice.

(Closed Session)

Members discussed the issues relating to the report and its recommendations.

(Open Session)

Resolved that:

- 1) Approval be given to outsource the GMP Reconciliation exercise to a third party, specialist pensions data analysis and data management provider;
- 2) The organisation selected via the National LGPS Framework be appointed to complete the GMP Reconciliation exercise.

30 Exclusion of the Public.

The Committee was requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involved the likely disclosure of exempt information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 relevant to the item(s) of business set out in the report.

The Committee considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

RESOLVED that the public be excluded for the following items of business.

(CLOSED SESSION)

31 GMP Reconciliations.

The Principal Pensions Manager provided a report to approve the appointment of a supplier to complete the GMP Reconciliation exercise within the timescale available.

It was noted that the final sentence in the second paragraph of 5.1 should be amended.

Resolved that the company outlined in the recommendation be appointed to complete the GMP Reconciliation exercise.

32 Wales Pension Partnership - An Update.

The Chief Treasury & Technical Officer provided a 'for information' report, which updated the Committee on the progress of the Wales Pension Partnership.

He reported on the background to the item, provided details in relation to the submission in respect of the 8 Welsh Pension Funds and outlined the interim Governance and procurement process that had taken place to date.

An updated timetable and progress update produced by the Wales Pension Partnership's Advisors, Hymans Robertson was outlined in Appendix 1.

33 Report of the Investment Consultant.

The 'for information' report presented the quarterly investment and market update of the appointed investment consultant to the fund.

The Pension Fund Committee has determined to augment the advisory services to the Pension Fund Committee with the appointment of the Investment Consultant, Hymans Robertson who along with traditional investment consultancy shall assist in shaping the fund's ESG and responsible investing policies along with assisting in monitoring the performance of the Wales Pension Partnership Investment Pool.

The quarterly report from Hymans Robertson was attached at Appendix 1.

The Committee asked questions of the Investment Consultant, which were responded to accordingly. The content of the report was noted and the Investment Consultant was thanked for the report.

34 Report(s) of the Independent Advisors.

The 'for information' report presented the economic update and market commentary from the perspective of the appointed independent investment advisors.

Attached at Appendix 1 were the quarterly reports ended 30 June 2017 of the two independent advisors, Mr Noel Mills and Mr Valentine Furniss. Mr Furniss provided an amended update.

The content of each report was noted by the Committee and the independent advisors were thanked for their reports.

35 Investment Summary.

The Chief Treasury and Technical Officer provided a 'for information' report which presented the investment performance for the quarter, year and 3 years ended 30 June 2017.

Attached at Appendix 1 were the quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 30 June 2017.

36 Fund Manager's Presentation(s):

A presentation was made by Geoff Day, Client Director and Sue Noffke, UK Equity Fund Manager of Schroders – UK Equities.

Questions in relation to the content of the presentation were asked by the Committee and responses were provided accordingly.

The content of the presentation was noted and the Chair thanked the Fund Manager for attending the meeting.

37 Retirement - thanks.

The Chair informed the Committee that the Pensions Manager would be retiring from the Authority after 39 years working in the Pensions section.

He offered his thanks on behalf of the Authority for her work in managing the service in relation to compliance and governance over the past few years.

The meeting ended at 12.46 pm

Chair

Agenda Item 4a



Report of the Section 151 Officer

Pension Fund Committee – 30 November 2017

Breaches Report

Purpose: The report presents any breaches which have occurred in the period in accordance with the Reporting Breaches Policy.

Report Author: Lynne Miller – Principal Pensions Manager

Finance Officer: Jeff Dong - Chief Treasury & Technical Officer

Legal Officer: Stephanie Williams – Principal Lawyer

Access to Services Officer: N/A

For Information

1. Introduction

1.1 The Reporting Breaches policy was adopted with effect from 9 March 2017.

1.2 The policy requires a report to be presented to the Pension Board and Pension Fund Committee on a quarterly basis, highlighting any new breaches which have arisen since the previous meeting and setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated

2. Breaches

2.1 Under the policy, breaches of the law are required to be reported to the Pensions Regulator where there is reasonable cause to believe that:

- A legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- The failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions

- 2.2 The Breaches Report is attached at Appendix A and the following further information is provided.
- 2.3 Under the LGPS regulations, interest is paid on retirement lump sum payments if the payment is made more than one month after retirement and calculated at one per cent above the base rate on a day to day basis from the due date of payment and compounded with three-monthly rests.
- 2.4 Since the last report on 28th Sep 2017, 52.28% of retirement lumps sums have not been paid within the benchmark; however, further investigation has ascertained that, in the main, the late payments were as a result of members not returning the appropriate paperwork in order to make payment. Communication sent to members at time of retirement has been reviewed to ensure that the importance of timely return of required documents is highlighted.
- 2.5 The Fund requires that employers pay employee and employer contributions to the Fund on a monthly basis and no later than the 19th of the month after which the contributions have been deducted. There have been a number of instances during the reporting period where breaches have occurred. In each case, Treasury Management staff have written to the employers to request payment and provide a reminder of the responsibilities to submit on time.

3. Equality and Engagement Implications

N/A

4 Legal Implications

- 4.1 Where breaches have occurred, the legal implications are outlined in Code of Practice no.14.

5. Financial Implications

- 5.1 Loss of investment income and a possible penalty charge from TPR.

Background papers: None

Appendices:

Appendix A: Breaches Report

City and County of Swansea Breach Register

Appendix A

City and County of Swansea Breach Register

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Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	New Breach (since last report)
Mar 2017	Investment asset allocation	The Investment Strategy Statement outlines an indicative allocation of 34% +/- 5% to Global Equities. At 31 st March 2017, the allocation was 43%	There is resulting over allocation to global equities	<p>The asset class in question returned 33% during the year which has caused the uplift in valuation- the best performing asset class during the year.</p> <p>There is a planned investment review for 2017/18 which shall review asset allocations on a long term basis</p>	Noting the volatility of asset values and the pending asset allocation review, it is determined imprudent to incur material transaction costs to address the allocation imbalance. A longer term allocation shall be derived from the pending investment review.	Allocations shall be reviewed as part of the investment review	
Mar – Jun 2017	Administration	20.37% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early	The administering authority has accrued interest payments on the retirement lump sums under the	This was due to members not returning relevant documentation in a timely manner	.		

		retirement	2013 LGPS regulations				
Mar – Jun 2017	Contributions	Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred			
30/04/2017	Administration	Gwrp Gwalia did not submit their annual return for year-end reconciliation until 22/06/2017 when it should have been provided by 30/04/2017	Delay in year-end reconciliation exercise and possibility of failure to issue Annual Benefit Statements to Gwrp Gwalia members	Regular contact maintained with employer throughout the delay. Recommended move to monthly returns via i-Connect		Recommended move to monthly returns via i-Connect	
Page Jul - Aug 2017	Administration	32.71% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was due to members not returning relevant documentation in a timely manner		Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	
Jul - Aug 2017	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has	

						passed	
Sept – Nov 2017	Administration	52.28% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 6.60% was not paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was mainly due to members not returning relevant documentation in a timely manner		Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	✓
Sept – Nov 2017 Page 12	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	✓

*New breaches since the previous meeting should be highlighted



Report of the Section 151 Officer

Pension Fund Committee – 30 November 2017

Wales Pension Partnership Investment Pooling - An Update

Purpose:	To update pension committee on the progress of the Wales Pension Partnership
Consultation:	Legal, and Finance
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Jeff Dong Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A

FOR INFORMATION

1 Background

- 1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

- 1.2 In December 2015, the Government issued its criteria and guidance for what it expected to see addressed in its received proposals from LGPS funds in respect of their pooling proposals. This was considered by pension fund committee at its Dec 2015 meeting.

- 1.3 Following extensive work by the SWT Pensions Sub Group and their appointed advisors, Hymans Robertson, a joint submission has been formulated in respect of the 8 Welsh Pension Funds. The Pension Fund Committee Deputy Chairman has been involved at 2 Chairs meeting to agree the same and the Pension Fund Committee received a formal presentation of the final submission on the 4th July 2016.

2 Submission in respect of the 8 Welsh Pension Funds

- 2.1 The submission in respect of the 8 Welsh Pension Funds to create a Wales Investment Pool was approved by Pension Fund Committee on the 4th July 2016.

- 2.2 The Pool will not be a merger of the eight funds. Each fund will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS regulations and pensions legislation in respect of their members. Annual Statements of Accounts and triennial Actuarial valuations will still be prepared for each individual pension fund and each fund will determine its own funding strategy. The Pool will have a limited remit and its objectives, as set out in the submission document, will be:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments

3 Governance and Procurement Progress

- 3.1 The Wales Investment Pool proposal includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is also proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eight funds.

- 3.2 Following extensive work by the Authorities, a legally binding Inter-Authority Agreement (incorporating the Terms of Reference for the Joint Committee), the specification of the services to be provided by the Operator and the role of the Officer Working Group has now been signed by all 8 funds. Consideration is also being given to the needs of the Pool for specialist legal and investment advice. The OWG have been working in consultation with Hymans Robertson and the appointed legal advisors Burges Salmon in formulating and finalising the procurement process and documentation.

- 3.3 The Joint Governance Committee had its first formal meeting on June 29th 2017. The remit of the JCG is set out in the IAA. The JCG has overseen the procurement process for the Operator.
- 3.4 Following the conclusion of the evaluation phase of the procurement, The JCG has considered the evaluation report and has approved the recommendation to appoint the bidder at its meeting of the 7th November 2017. This recommendation shall now be considered by the 8 Welsh Administering Authorities. (Report to follow later on this agenda)
- 3.5 The DCLG have also requested an update on the status of the project and as such, the WPP have completed the required 'questionnaire' providing a status update. The submitted DCLG update and latest timetable is attached at Appendix 1.

4 Legal Implications

- 4.1 The current legislative framework for the pension fund investments carried out by Administering Authorities is set by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The law governing pensions is a complex and specialist area. National Government guidance indicates that the pooling of LGPS assets is permissible under current law.

The Inter-Authority Agreement has been approved and signed by all 8 Local Authorities.

The Pension Fund Committee Terms of Reference and Scheme of Delegation sets out the Committee's responsibility for the strategic governance of the Pension Fund.

5 Financial Implications

- 5.1 Financial implications are indicated within the submission.

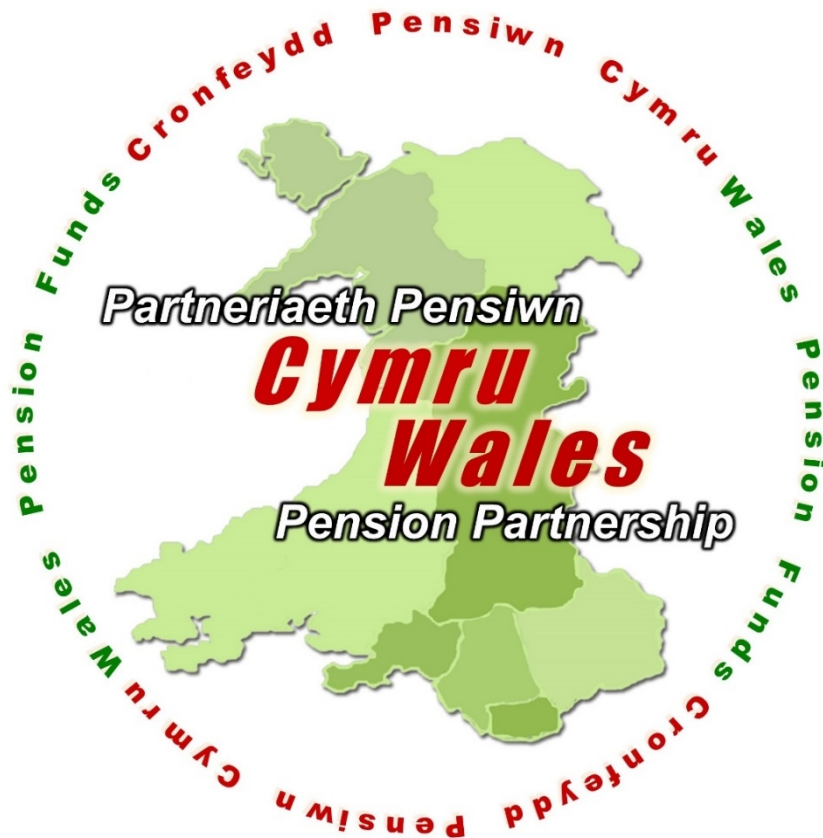
6 Equality Impact Assessment Implications

- 6.1 There are no equality implications arising from this report.

Background Papers: None.

Appendices:

Appendix 1 - Wales Pension Partnership Local Government Pension Scheme Pooling: Progress Report - October 2017



**Wales Pension
Partnership
Local Government Pension Scheme Pooling:
Progress Report - October 2017**

Pool: Wales

Date: 20 October 2017

Criterion A: Scale

For pools in development

- **Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate**
- **Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds**

In our final submission to DCLG in July 2016, we stated that the ambition for the Wales Pool was to create appropriate vehicles for collective investment for all participating funds across all asset classes in time. We can confirm that remains our intention.

The total value of assets of the participating funds referred to in that proposal, valued as at March 2015, was £12.8bn. The total value of assets as at 30 June 2017 was £16.3bn.

There are a significant number of passively managed investments held by the funds in the form of insurance policies. We regard these assets as forming part of the Pool. The selection exercise for a single manager was carried out on a collective basis in order to derive maximum fee savings from the scale of assets, and the monitoring of the manager and any future retender will be the responsibility of the Joint Governance Committee (JGC). It may not be feasible for these investments to be transferred into the pooled vehicles managed by the third party operator as the individual funds will remain beneficiaries of the relevant policies and changing from a life policy vehicle may create additional tax-payer costs without any benefit to justify the change. However, the JGC will review the position on a regular basis.

The funds also have a number of illiquid investments with fixed term lives. It would be very costly to exit from such investments before the planned realisation of the underlying assets. The intention is that the operator will make available pooled vehicles to allow new commitments to be made on a collective basis to illiquid asset classes such as private equity and infrastructure. As the current illiquid investments mature and capital is returned to investors, they will be replaced by new commitments through the new pooled vehicles. These new investments will all form part of the Pool. The JGC may also explore the potential for the operator to carry out due diligence monitoring on the current illiquid investments until they mature.

In addition, the Clwyd Pension Fund has a Liability Matching mandate and a Managed Account Platform, comprising assets in total of approximately

£500m. Although the Clwyd Fund ISS states that it is committed to investing all assets through the Pool where pooling objectives are met, for these bespoke mandates, it will depend on the capabilities of the appointed operator to accommodate these mandates within the Pool.

Progress towards go live by April 2018

- **please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorization**
- **please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues**

We remain on track to have the Wales Pool operational by April 2018. By end 2017 the operator will be appointed and the host authority / client side function in place to manage the operator contract. The application for FCA authorisation of an ACS for the sole use of the All Wales pool will be in train early in 2018 and in excess of £3bn of passive investments is already under pool governance ahead of the government target date of April 2018. The exact date of authorisation of the ACS will depend on turnaround time by the FCA.

As part of this update we have provided a high level summary of progress (appendices A).

Progress with operator procurement

There was a high level of market interest with eight bidders submitting selection questionnaire responses. From this six bidders were invited to tender, with four actually tendering.

The evaluation process began mid-July with bidder clarification presentations taking place late August. In order to finalise the evaluation, further clarification responses were required resulting in an extension to the original evaluation timetable.

The tender evaluation was completed in September. An Operator selection report explaining the evaluation result has been drafted by the Officer Working Group and its legal advisors. This will be presented to the JGC at its next meeting. The final decision on the operator to be appointed is expected to be made by the JGC in November 2017. Individual Administering Authorities will then need to obtain their own local approval to accept the recommendation on operator appointment and enter into the contract. The formal contract is expected to be concluded mid-end December.

Recruitment of core team

This is not applicable to the All Wales Pool since it will use a third party contractor to provide Operator Services.

However, recognising that this is a complex, high value contract it is important to have a “client side” function in place to manage the operator contract.

Carmarthenshire has assumed its responsibilities acting as the “host authority”. It will provide secretariat services and technical support to the Pool’s JGC and OWG. It will also provide the “client side” team dealing with the third party operator and ensuring the operator meets the performance requirements and service level standards specified in the contractual terms.

Design of sub-funds

A provisional outline of the likely fund range was developed and shared with bidders to inform their tenders and allow for transparent assessment of likely set-up costs.

Under the operator contract, it is the responsibility of the operator to advise the Wales pool on the detail of the sub-funds to be made available in the first phase in 2018, including mandate specification and choice of the starting line up of investment managers. This will be the first task of the Operator upon appointment.

In order to accelerate this process, the officers of the administering authorities will commence work in November on sub-fund design and specification. This will enable the operator to hit the ground running and prepare the initial ACA authorisation application as soon as possible after its appointment. (The initial application for ACS authorisation can be submitted before all of the investment managers are confirmed by the operator.)

Appointment of depositary

The contractor appointed as operator is responsible for appointment of a depositary and other service providers including investment managers.

FCA authorisation

The contractor appointed as operator will be responsible for establishing and obtaining authorisation for an ACS for the sole use of the Wales Pool.

Applications by the operator to establish the ACS and first tranche of sub-funds are expected to be submitted as soon as possible after the appointment of the operator (see above). This is currently expected to be early 2018.

Transition of assets

Detailed planning of the proposed transfers of assets into the pool will also begin once the operator appointment has been finalised in December.

Risks to delivery, risk mitigation and risk management

This is a very complex project and the first procurement of services of this kind. The contract for operator services is a long term commitment with significant costs.

Our over-riding priority is to execute the procurement safely and well. We have therefore taken slightly longer than originally anticipated to define the service required, design and execute the procurement process and draft the supporting legal documentation.

However, our original plan contained contingency that means we are still on track to meet the government target date for implementation (see above).

Some risks to the delivery timescale include:

Description of Risk	Wales Pool Response	Current status
1. Risk of few suitable bidders or incomplete understanding of the required services.	This was dealt with by comprehensive engagement and dialogue with the market prior to commencement of the formal procurement process to: a) raise awareness of the procurement; b) understand capabilities of potential bidders; and c) share information on the requirements of the Funds in Wales.	This risk has been managed successfully and is now closed
2. Risk of delays in implementation due to local elections affecting the membership of the Joint Governance Committee.	This was mitigated by the Chairmen initially delegating authority to the Treasurers and Officer Working Group to proceed with the final stages of the procurement exercise during purdah. The JGC has met and is now well established.	This risk has been managed successfully and is now closed
3. Risk of challenge to the procurement process or outcome.	This is being mitigated by using external legal advisers (Burgess Salmon) with experience in fund management and procurement to design and manage the procurement and evaluation process and technical advice from external investment advisers (Hymans Robertson).	This risk remains open. Bidders not informed of tender outcome until late November at the earliest.
4. Risk of delays in individual authorities signing the contract with the successful bidder.	This is being mitigated by early engagement with monitoring officers. Officers and Treasurers will manage communication of tender outcome and local governance approvals to enter into	This risk remains open.

Description of Risk	Wales Pool Response	Current status
	contract.	
5. Risks of inadequate or poor planning.	This is being mitigated by professional external project management (Hymans Robertson)	This risk remains open.
6. Risk of delays in receiving FCA approval for the vehicle.	This will be mitigated by early work on the detailed specification of the fund and sub- fund requirements to enable applications to be submitted by the appointed operator as early as possible. Any bottlenecks at the FCA are beyond our control and we would welcome any assistance government can provide in this respect.	This risk remains open.
7. Risk of failure to resolve MiFID issues.	Following work by the LGA, the FCA issued revised guidance which should resolve this matter. Individual administering authorities need to opt up to professional status with their current Investment Managers and with the Operator company once appointed.	Risk now largely removed provided individual administering authorities follow the process to opt up.

Criterion B: Governance

For pools in development

- **Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements.**

Governance: Joint Governance Committee and Inter-Authority Agreement (IAA)

The IAA took effect from June 2017 with the first meeting of the Chairs as a formal Joint Governance Committee taking place on 29 June.

Carmarthenshire took on the role of “host authority” with effect from June 2017, providing secretarial and technical support to the JGC, Treasurers and OWG. The host authority will also be responsible for contract management. Recruitment of staff is underway.

Criterion C: Reduced costs and value for money

- **Update on costs estimates – please state current high level estimates for implementation costs to date, by go live and following go live**
- **Update on annual savings estimates, including reductions in fees/mandates**
- **Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above**
- **Plans for reporting including on fees and net performance in each listed asset class against an index**
- **Plans for how the pool will report publicly on a fully transparent basis – please confirm that the pool will adopt the Scheme Advisory Board Code of Transparency for reporting to participating funds**

Our estimates for the level of cost savings from investment manager fees which might be achieved over time remain as set out in our proposal from July 2016.

The estimates were made by considering each of the asset classes in which the participating funds were invested and using data provided by CEM Benchmarking to find the level of costs incurred by investments in those asset classes in the year to March 2015 (specified as the base year for comparison purposes). We then considered the level of savings which might be achievable within each asset class.

We would re-iterate that it is difficult at this stage to estimate fee savings with any degree of certainty as we do not know what fees will be obtained with investment managers nor how some of the alternative asset classes might best be accessed collectively.

The savings figures quoted in our July 2016 proposal were – as requested - based on asset values and asset allocations as at the base date of 31 March 2015. The estimates were as follows:

Three year period ending	Annual savings achieved
March 2021	£8.4m
March 2024	£9.8m
March 2027	£11.3m
March 2030	£12.5m
March 2033	£12.5m

Total assets across the participating funds were £16.3bn at 30 June 2017, so savings may be higher than the figures quoted above. The timescales within which the savings are likely to accrue – in terms of the three year periods defined previously - are unchanged.

As the process of establishing the pooling arrangements continues, there is more clarity on the total set-up costs likely to be incurred. The operator services that we are putting in place are a new form of arrangement in the market place and the procurement process has been complex. However, we firmly believe that robust and detailed specification of the contract and assessment of the different potential providers are essential steps in ensuring benefits flow through as required.

In our July 2016 submission, we estimated that implementation costs in the region of £0.5-1m (over and above fees payable for operator services) would be incurred in the period to March 2018 and £50,000-350,000 in the three year period to March 2021.

It is now our expectation that costs in the set-up period to March 2018 may fall within a range of £1-1.5m, though costs in the subsequent period to March 2021 may be lower as more work is picked up by the operator. Additional costs incurred in setting up the pool are still relatively modest in comparison with the savings that will be delivered in the longer term.

In terms of reporting, we have included as part of the provider assessment a focus on applicants' ability to provide detailed reporting to meet the requirements of all participating funds and of the JGC. We are requiring full transparency on fees of all the underlying investment managers within the proposed vehicles and will expect these to be reported in a manner consistent with DCLG requirements.

CEM Benchmarking have also been formally appointed to provide reporting on costs incurred in the management of assets within the pool.

We can confirm that the pool will follow the SAB Code of Transparency in terms of its reporting to participating funds.

Criterion D: Infrastructure

- **Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target**
- **Timetable to achieve stated ambition - please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above**

Our position has not changed since July 2016. Our stated ambition in our proposal was – in the short to medium term - to have at least 5% of assets invested in infrastructure investments with a longer term aspiration set at 10%
- subject to satisfactory investments being available.

At 30 June 2017, a total of £180m was either invested in infrastructure assets or formally committed to infrastructure funds, equivalent to circa 1.1% of pool assets, so the stated target represents a significant increase from the current position.

However, we also acknowledged in our original submission that allocations to infrastructure represent asset allocation decisions and are therefore the responsibility of individual funds rather than a collective decision for the Pool.

The most efficient way of accessing infrastructure investment suitable for LGPS fund liabilities may be through national vehicles developed for use by all of the pools.

We therefore continue to engage with and support the work of the cross party working group on infrastructure in order to ensure that we may benefit from any national initiatives which may emerge in the future.



Wales Pension Partnership

Timetable of events to Operator
appointment and progress update
November 2017

1

Date	Topic	Action required	Responsible	Timings
7 Nov	Operator selection	Operator recommendation to be made to the JGC	OWG	Complete
7 Nov	Operator recommendation	Operator recommendation confirmed by the JGC	JGC	Complete
9 Nov – 30 Nov	Operator recommendation	Constituent Authorities to approve Operator selection	Treasurers	2 weeks
30 Nov – 1 Dec	Operator recommendation	Progress update issued to Chairs following completion of Constituent Authorities meetings	OWG	1 day
1 Dec	Operator selected	Issue award notice and standstill letters	Hymans & Flintshire	1 day
1 Dec – 11 Dec	Operator selected	Standstill period and respond to bidder questions	Burges Salmon, Hymans & OWG	10 days
12 Dec	Operator selected	OJEU notice updated with contract award and Operator Agreement issued to successful bidder	Hymans & Flintshire	1 day
12 Dec – 15 Dec	Operator Agreement	Finalise the Operator Agreement with winning bidder	OWG, Operator, Burges Salmon	1 – 2 days

Date	Topic	Action required	Responsible	Timings
15 Dec	Operator Agreement	Operator Agreement signed and completed	OWG, Operator, Burges Salmon	1 day
15 Dec	Operator selected	Press release / public announcement issued	OWG	1 day
w/c 18 Dec	Kick off meeting	Face to face meeting with Operator to discuss sub-fund design and MiFID II	OWG/Operator	1 – 2 days
January	Establishment Phase	Face to face meetings with Operator to discuss establishment phase and project plan covering information requirements/ decision making/allocating actions/etc	OWG	1 – 2 days Per week



Report of the Head of Legal, Democratic Services & Business Intelligence

Pension Fund Committee – 30 November 2017

Exclusion of the Public

Purpose:	To consider whether the Public should be excluded from the following items of business.	
Policy Framework:	None.	
Consultation:	Legal.	
Recommendation(s):	It is recommended that:	
1)	The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.	
	Item No's.	Relevant Paragraphs in Schedule 12A
	6-10	14
Report Author:	Democratic Services	
Finance Officer:	Not Applicable	
Legal Officer:	Tracey Meredith – Head of Legal, Democratic Services & Business Intelligence(Monitoring Officer)	

1. Introduction

- 1.1 Section 100A (4) of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, allows a Principal Council to pass a resolution excluding the public from a meeting during an item of business.
- 1.2 Such a resolution is dependant on whether it is likely, in view of the nature of the business to be transacted or the nature of the proceedings that if members of the public were present during that item there would be disclosure to them of exempt information, as defined in section 100I of the Local Government Act 1972.

2. Exclusion of the Public / Public Interest Test

- 2.1 In order to comply with the above mentioned legislation, Cabinet will be requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Exclusion Paragraphs of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.
- 2.2 Information which falls within paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended is exempt information if and so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 2.3 The specific Exclusion Paragraphs and the Public Interest Tests to be applied are listed in **Appendix A**.
- 2.4 Where paragraph 16 of the Schedule 12A applies there is no public interest test. Councillors are able to consider whether they wish to waive their legal privilege in the information, however, given that this may place the Council in a position of risk, it is not something that should be done as a matter of routine.

3. Financial Implications

- 3.1 There are no financial implications associated with this report.

4. Legal Implications

- 4.1 The legislative provisions are set out in the report.
- 4.2 Councillors must consider with regard to each item of business set out in paragraph 2 of this report the following matters:
 - 4.2.1 Whether in relation to that item of business the information is capable of being exempt information, because it falls into one of the paragraphs set out in Schedule 12A of the Local Government Act 1972 as amended and reproduced in Appendix A to this report.
 - 4.2.2 If the information does fall within one or more of paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended, the public interest test as set out in paragraph 2.2 of this report.
 - 4.2.3 If the information falls within paragraph 16 of Schedule 12A of the Local Government Act 1972 in considering whether to exclude the public members are not required to apply the public interest test but must consider whether they wish to waive their privilege in relation to that item for any reason.

Background Papers: None.

Appendices: Appendix A – Public Interest Test.

Public Interest Test

No.	Relevant Paragraphs in Schedule 12A
12	Information relating to a particular individual.
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 12 should apply. Their view on the public interest test was that to make this information public would disclose personal data relating to an individual in contravention of the principles of the Data Protection Act. Because of this and since there did not appear to be an overwhelming public interest in requiring the disclosure of personal data they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
13	Information which is likely to reveal the identity of an individual.
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 13 should apply. Their view on the public interest test was that the individual involved was entitled to privacy and that there was no overriding public interest which required the disclosure of the individual's identity. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
14	Information relating to the financial or business affairs of any particular person (including the authority holding that information).
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 14 should apply. Their view on the public interest test was that:</p> <p>a) Whilst they were mindful of the need to ensure the transparency and accountability of public authority for decisions taken by them in relation to the spending of public money, the right of a third party to the privacy of their financial / business affairs outweighed the need for that information to be made public; or</p> <p>b) Disclosure of the information would give an unfair advantage to tenderers for commercial contracts.</p> <p>This information is not affected by any other statutory provision which requires the information to be publicly registered.</p> <p>On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>

No.	Relevant Paragraphs in Schedule 12A
15	<p>Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.</p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 15 should apply. Their view on the public interest test was that whilst they are mindful of the need to ensure that transparency and accountability of public authority for decisions taken by them they were satisfied that in this case disclosure of the information would prejudice the discussion in relation to labour relations to the disadvantage of the authority and inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
16	<p>Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.</p>
	<p>No public interest test.</p>
17	<p>Information which reveals that the authority proposes: (a) To give under any enactment a notice under or by virtue of which requirements are imposed on a person; or (b) To make an order or direction under any enactment.</p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 17 should apply. Their view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by the public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
18	<p>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime</p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 18 should apply. Their view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis they felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>

By virtue of paragraph(s) 14 of Schedule 12A
of the Local Government Act 1972
as amended by the Local Government (Access to
Information) (Variation) (Wales) Order 2007.

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Agenda Item 7a

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Agenda Item 8

By virtue of paragraph(s) 14 of Schedule 12A
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Agenda Item 9

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