Submission by the Wales Pool to the Department for Communities and Local Government (DCLG)

In response to the publication in November 2015:

LGPS: Investment Reform Criteria and Guidance

Introduction

As Chairs of the pension committees for the eight Welsh local government pension funds, we are delighted to submit this proposal comprising details of the establishment of the Wales Pool.

Within Wales, our work on identifying the opportunity for achieving efficiencies through the pooling of investments predates the announcement of the LGPS wide agenda last year. Prior to the publication of the guidance to the LGPS in November 2015, we had already developed and agreed a detailed business plan which included joint procurement of a single provider for passive management and establishment of a pooling vehicle for collective investment. We have recently implemented the appointment of a single passive manager and are benefiting as a result from significant cost savings effective from April 2016.

In this document, we have confirmed our commitment to appoint a regulated third party operator to provide a series of collective vehicles in order to benefit from economies of scale from the management of Welsh pension fund assets. The arrangements will be provided through a robust governance structure providing clear accountability back to individual funds.

Discussions are continuing on the precise arrangements to be put in place for the different types of investments held by the funds but we are estimating that annual savings – net of all running costs – in the region of £10m p.a. could be achieved.

We are a cohesive group of funds with a long experience of collaborating across a number of policy areas, reflecting the specific economic, social, regulatory and political context within Wales. There is a strong desire within Wales to continue the direction of travel we have adopted to date and to capture fully the benefits which we outline in this proposal.

Cllr. Graham Hinchey, Chair, Investment Advisory Panel, Cardiff and Vale of Glamorgan Pension Fund

Cllr. Rob Stewart, Chair, Pension Fund Committee, City and County of Swansea Pension Fund

Cllr. Alan Diskin, Chair, Pension Fund Committee, Clwyd Pension Fund

Cllr. Wyn Evans, Chair, Pension Fund Panel, Dyfed Pension Fund

Cllr. Mary Barnett, Chair, Pensions Committee, Greater Gwent (Torfaen) Pension Fund

Cllr. Stephen Churchman, Chair, Pensions Committee, Gwynedd Pension Fund

Cllr. A G Thomas, Chair, Powys Pension Fund

Cllr. Mark Norris, Chair, Pension Fund Committee, Rhondda Cynon Taff Pension Fund

Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	**Wales Pool**
Participating funds	Cardiff and Vale of Glamorgan Pension Fund City and County of Swansea Pension Fund Clwyd Pension Fund Dyfed Pension Fund Greater Gwent (Torfaen) Pension Fund Gwynedd Pension Fund Powys Pension Fund Rhondda Cynon Taff Pension Fund

Any enquiries in relation to this submission should be addressed to:-

- Christine Salter, Corporate Director Resources, City of Cardiff Council
  C.Salter@cardiff.gov.uk; 0292 0872301
- Mike Hawes, Head of Finance and Delivery, City and County of Swansea
  Mike.Hawes@swansea.gov.uk; 01792 636423
- Gary Ferguson, Corporate Finance Manager, Flintshire County Council
  gary.ferguson@flintshire.gov.uk; 01352 702271
- Chris Moore, Director of Corporate Services, Carmarthenshire County Council
  CMoore@carmarthenshire.gov.uk; 01267 224120
- Nigel Aurelius, Assistant Chief Executive (Resources), Torfaen County Borough Council
  Nigel.Aurelius@torfaen.gov.uk; 01495 742623
- Dafydd L. Edwards, Head of Finance, Gwynedd Council
  DafyddLEdwards@gwynedd.gov.uk; 01286 682668
- David Powell, Strategic Director – Resources, Powys County Council
  david.powell@powys.gov.uk; 01597 826729
- Chris Lee, Group Director Corporate and Frontline Services, Rhondda Cynon Taff County Borough Council
  Christopher.D.Lee@rctcbc.gov.uk; 01443 424026
- Anthony Parnell, Treasury & Pension Investments Manager, Carmarthenshire County Council
  AParnell@carmarthenshire.gov.uk; 01267 224180

Criterion A: Asset pools that achieve the benefits of scale

1. **The size of the pool once fully operational.**	
(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).	

The total assets of the eight funds participating in the Wales Pool are shown in the table below.

Fund	**Assets (£m)**
Cardiff and Vale of Glamorgan Pension Fund	1,653
City and County of Swansea Pension Fund	1,528
Clwyd Pension Fund	1,377
Dyfed Pension Fund	1,908
Greater Gwent (Torfaen) Pension Fund	2,184
Gwynedd Pension Fund	1,408
Powys Pension Fund	512
Rhondda Cynon Taff Pension Fund	2,228
Total	**12,798**

Asset values are shown as at March 2015.

Our ambition for the Pool is to create appropriate vehicles for collective investment for all participating funds across all asset classes in time.

Assets which are currently held as life policies will be regarded as being within the Pool's governance arrangements but it will be necessary for them to be held outside of the pooled investment vehicles managed by the appointed operator such that the individual funds remain beneficiaries of the relevant policies. However, the investments are regarded as being an integral component of the Pool on the basis that a single manager has been appointed through a collective procurement exercise, and the ongoing monitoring and reporting of the investments will be incorporated into the Pool and fall within the responsibility of the Pool's Joint Governance Committee.

Where funds hold illiquid investments with fixed term lives, it could be very costly to exit from such investments before the realisation of the underlying assets. For that reason, it is proposed that holdings in such funds are retained outside of the Pool until expiry. However, new investments in such assets will be made within the Pool.

Depending on the precise nature of the services available from the appointed operator, it may be possible that one of the participating funds may wish to hold a proportion of their assets outside of the pool. More details are provided in the section below.

2. Assets which are proposed to be held outside the pool and the rationale for doing so.	
(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).	
The funds will aim to include all of their assets within the pooling arrangements unless there are technical barriers preventing them from doing so for specific investments.	
(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.	See Annex 1.

The funds will aim to include all of their assets within the pooling arrangements unless there are technical barriers preventing them from doing so. Annex 1 supplied by Clwyd Pension Fund highlights a couple of mandates where there are some uncertainties on this point.

Funds will hold a small level of operational cash outside of the Pool to help with the efficient management of the fund. Such balances are expected to be modest and will be reviewed on a regular basis.

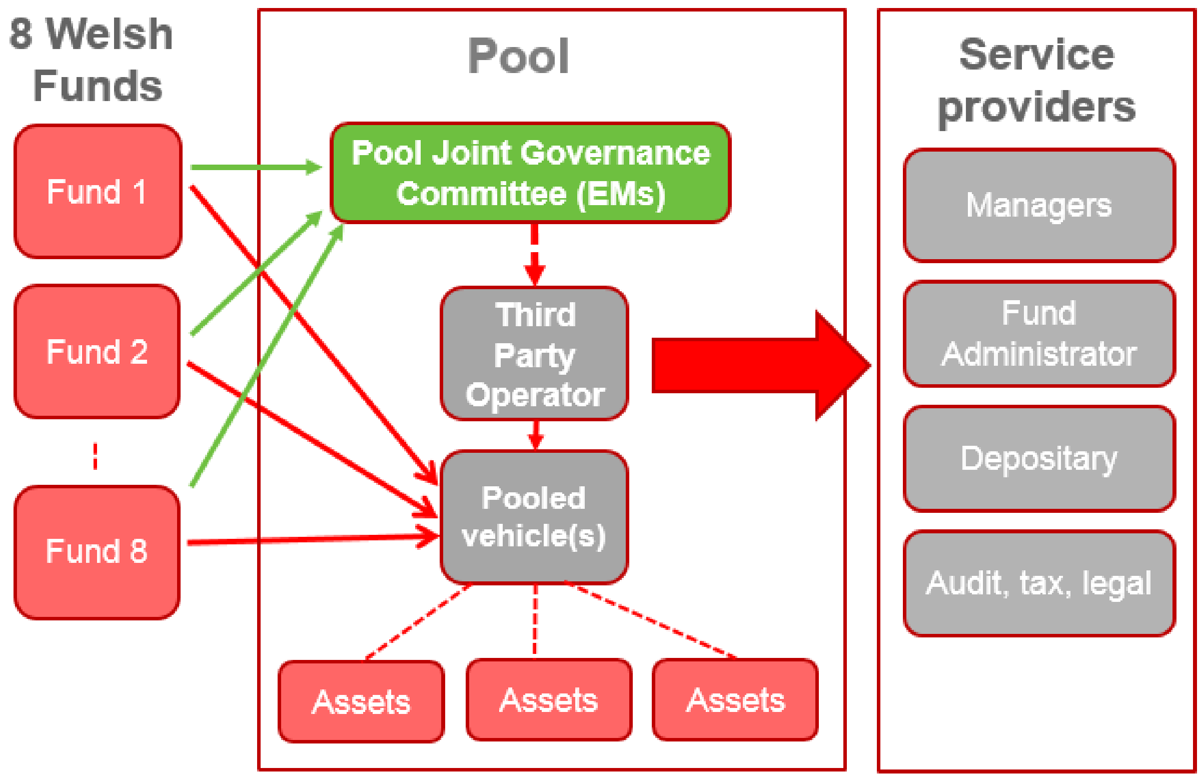
Funds may also wish to have the flexibility to make limited local investments within their own investment strategy should an appropriate opportunity arise, subject to discussions with the other funds within the Pool.

3. **The type of pool including the legal structure.**	
(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:	
• Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities. • Outline of tax treatment and legal position, including legal and beneficial ownership of assets. • The composition of the supervisory body.	
Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.	

All administering authorities for the participating funds have formally agreed to the nature of the pooling arrangements as described in this section.

We believe that clear and robust governance arrangements are critical in terms of ensuring that the desired objectives of the Pool are achieved.

It is proposed that the Pool appoints a third party operator authorised by the FCA to provide a series of investment sub-funds in which the assets of the participating funds will be invested.



The formal decision to appoint a third party operator of collective vehicles was taken originally by all of the Welsh funds in September 2015 following a detailed report and business plan commissioned from external advisers. In light of the publication of the criteria for LGPS pooling published in November 2015 - and the formation of a number of other LGPS pools within England since that date - that decision has been revisited and re-confirmed by the Wales Pool earlier this year. This does not preclude consideration in future of the option of designing and building our own regulated operator.

A Joint Governance Committee (JGC) will be established to oversee the operator. The Committee will comprise elected members – one from each of the eight participating funds. It is anticipated that this is likely to be the Chairs of the respective Pensions Committees though administering authorities may choose to nominate alternative members if appropriate. This arrangement will provide accountability for the operator back to individual administering authorities.

The remit of the JGC is discussed in more detail in section B3.

The operator will be responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer, and (possibly) an external valuer administrators as necessary.

We anticipate at this stage that listed bonds and equities are likely to be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle, though we will discuss this issue with the appointed operator. It may be that alternative vehicles are more appropriate for some other asset classes. As well as considering the options with the operator, we will also take external advice on the final proposed approach from a tax efficiency and legal compliance basis.

Under the proposed structure, the depository will hold legal title to the assets of the Pool. The operator will be responsible for managing and operating the Pool, including entering into the legal contracts with the investment managers.

4. How the pool will operate, the work to be carried out internally and services to be hired from outside.
Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.
(a) To operate in-house :
(a) To procure externally :

The Pool proposes to appoint a third party operator through a detailed procurement process in the second half of 2016. The funds have already discussed the range of services which are likely to be available from different service providers and the differing levels of service provision which might be considered. The detail of those services to be carried out internally and those which will be sourced through the operator will be discussed further and decided finally as part of the selection process.

To operate in-house

- The Pool will be responsible for the design of the initial structure of the ACS and its sub-funds in close cooperation with its chosen operator. The Pool anticipates that it and its chosen operator would work closely together on subsequent changes to existing sub-funds and on the launch of additional sub-funds. The pool recognises that this is subject to the operator having ultimate responsibility for operating and managing the ACS. Decisions on asset allocation will continue to be taken by the individual administering authorities.
- The Pool will be responsible for providing public reporting on the investment performance of the Pool assets and also on the wider area of achieved cost savings.

To procure externally

- The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds.
- The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance.
- They will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depositary to the Pool.
- The Pool will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.	
(a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats). YES - We expect the pooling structure to be in place ahead of April 2018 assuming that there are no delays encountered with the procurement process and that the appropriate regulated vehicles can be established by the operator within the expected timescales.	
(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.	Attached as ANNEX number 2
(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)	Attached as ANNEX number 3
(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.	
Total value of assets estimated to be held in pool as at 31.3.2021: £12.2bn 31.3.2024: £12.4bn 31.3.2027: £12.6bn 31.3.2030: £12.8bn 31.3.2033: £12.8bn We anticipate that 95% of assets will be within the Pool by April 2021.	

Criterion B: Strong governance and decision making

1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.
a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.
b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).

The Joint Governance Committee (JGC) will be set up formally as a Joint Committee between the participating administering authorities. Each fund will have one elected member on the Committee. It will operate on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible. A formal Terms of Reference for the Committee will be drawn up.

The Committee will be responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions with the operator as to the specific sub-funds which should be set up within the Pool, both at the outset and on an ongoing basis.

Officers from each administering authority will attend JGC meetings (in a non-voting capacity). The officers already work together as the Pensions Sub Group of the SWT (Society of Welsh Treasurers). The formal terms of reference of this officer group will be revised in light of the new pooling arrangements. The officers will advise the JGC on the establishment and monitoring of the various sub-funds as well as liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds' Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC. However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds' investments.

External scrutiny and formal due diligence of the operator and depositary will also be carried out by the FCA in their role as regulator.

2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.	
(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.	
(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.	
(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.	

(a) A contractual sponsor agreement will be drawn up between the appointed third party operator and the eight administering authorities. External legal advice will be taken by the Pool on the content and format of the contract.

A formal Terms of Reference will be drawn up for the Joint Governance Committee. This will form the basis for the relationship between the Committee and the individual administering authorities.

(b) The draft will be finalised as part of the procurement process. NOTE: Advice on the procurement process to be used will need to be considered further.

(c) The operator will be appointed on a fixed term contract – with an ability for the JGC to terminate the service early in the event of unacceptable performance by the operator. The work involved in changing operator has been discussed already by the Pool and will be considered in more detail as part of the selection exercise.

Comprehensive reporting requirements for the operator will be agreed as part of the service definition.

3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.
(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.
(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

Administering authorities

Individual administering authorities will be responsible for:-

- Setting their fund's investment strategy and asset allocation, as each fund will have a different pattern of liabilities, a different mix of participating employers and varying attitudes to risk. The investment strategy is a core component of each individual fund's overall funding strategy.
- Any issues relating to the setting of employer contribution rates and the overall administration of the fund's benefits.
- Nominating an elected member to sit on the JGC.

Joint Governance Committee (JGC)

The Committee will be responsible for:

- Recommending the appointment of and monitoring the performance of, the third party operator.
- Interacting with the operator on the design and structure of the investment sub-funds which should be made available by the operator. The objective will be to make available a sufficient range of funds to allow funds to implement their respective investment strategies whilst also being mindful of the benefits of aggregating assets.
- Reporting on the activities of the Pool as required – to administering authorities and Government as well as public reporting.
- Ensuring compliance of the operator with the terms of the sponsor agreement.

Third Party Operator

The Operator will:

- Establish investment sub-funds in cooperation with the JGC, recognising that the operator has ultimate legal and regulatory responsibility for this function.
- Select and contract with the investment managers for each of the sub-funds, as is required in their role as the regulated investment decision-making body.
- Carry out appropriate due diligence on those investment managers, as well as other service providers.
- Provide an appropriate level of detailed reporting on the performance of the investment sub-funds.
- Provide administration in relation to the underlying sub-funds.
- Meet all relevant regulatory requirements.

4. The shared objectives for the pool and any policies that are to be agreed between participants.
(a) Please set out below the shared objectives for the pool.
(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

(c) If available please attach as an ANNEX any draft or agreed policies already in place.	

(a) The objectives of the Pool have been agreed as follows:

- 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.

(b) The participating authorities will agree specific policies as required. These will include, but not be restricted to, the following:-

- The allocation of implementation and ongoing costs between participants.
- The allocation of transition costs incurred from transferring fund assets into aggregated Pool vehicles.
- The criteria applied and agreed with the operator, to establishing new sub-funds for specific asset classes or investment types.
- The approach to Environmental, Social and Governance (ESG) factors within investment and wider issues relating to Responsible Investment.

5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.	
(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u>	
(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.	

(a) Estimates at this stage are difficult as the precise scope of services to be provided by the third party operator has not been defined.
However, we have provisionally estimated the following:-

- Implementation costs – circa £0.5m-£1m
- Ongoing costs - circa £[redacted]

Implementation costs

The estimate of Implementation Costs excludes transaction costs in relation to transferring investment assets.

Regulatory capital will be provided by the operator (and therefore reflected in operator's charges.)

The estimate comprises the costs of carrying out a procurement exercise for a third party operator and subsequent liaison with the operator regarding the setting up of investment sub-funds. It includes an estimate of the input of internal officer resources across the funds as well as external advice in relation to taxation and legal issues, project management and investment advice on potential fund options, etc.

Ongoing costs

We assume that the running costs of the Pool will predominantly comprise the fees payable to the operator, though there will be additional governance costs relating to officer and Committee time.

The fees payable to the operator will depend on the level of services agreed though we have assumed at this stage a broad range of 1-3 bps (or £1.3m-£3.5m).

Fund officers will also be spending time on additional areas such as managing the operator contract (SLAs etc.), monitoring operator performance (KPIs), overseeing reporting, and providing support and advice to the Pool's Joint Governance Committee.

We expect there to be limited scope to offset current costs though some explicit costs will reduce including work in relation to selecting and contracting with managers and day to day queries on individual mandates. We have estimated that additional officer and governance costs should be less than £0.5m per annum.

Depository and custody costs will transfer from being a direct fund expense to being incurred by the ACS. Other costs and expenses will incurred at the level of the ACS, including those assets services, investment managers, lawyers, auditor and (possibly) valuer. Efficiencies are likely given the larger scale of assets.

(b) The funds have discussed the potential use of internal fund officers to assist with Pool business.

Estimates of the likely workload at this stage are difficult as the precise scope of services to be provided by the operator has not been defined.

The funds are open to the formal allocation of officer time to the Pool should that be seen as advantageous.

6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.
(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.

YES - the Pool will have an agreed policy in place by April 2018.

7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.
(a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

YES – the Pool is committed to publishing the above information. We feel there is benefit in there being collaboration between pools in agreeing on the best format for reporting such information as this will allow for greater consistency of overall data.

8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.
(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

The funds have requested and received detailed analysis on their investment costs from independent benchmarking company, CEM Benchmarking.

Once formally established, the Joint Governance Committee will explore the potential for using third party evaluation services to provide independent assessment of different aspects of the Pool's governance and performance.

Criterion C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	
(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.	

Total investment costs and fees reported by the eight funds in their Annual Reports and Accounts for March 2013 were £34.385m.

In order to calculate costs on a fully transparent and consistent basis, the funds supplied data to a third party company, CEM Benchmarking. Reports have been produced at an individual fund level and at an aggregate pool level.

The cost information supplied by CEM is as follows:

	March 2013 (bps)	March 2013 (£)
Investment management costs	44.6	£47.6m
Oversight, custody and other costs	2.7	£2.9m
Total costs	47.3	£50.5m

The calculated investment costs include performance related fees for the public market asset classes but exclude carry/performance fees for infrastructure, property and private equity. They exclude non-investment costs, such as pension administration.

Where there have been underlying fees paid within fund-of-funds arrangements and specific data has not been available, CEM have estimated the costs incurred based on their global database of similar arrangements.

2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.	£m
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	£m
(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.	

Total investment costs and fees reported by the eight funds in their Annual Reports and Accounts for March 2015 were £56.489m.

In order to calculate costs on a fully transparent and consistent basis, the funds supplied data to a third party company, CEM Benchmarking. Reports have been produced at an individual fund level and at an aggregate pool level.

The cost information supplied by CEM is as follows:

	March 2015 (bps)	March 2015 (£)
Investment management costs	45.6	£58.3m
Oversight, custody and other costs	2.9	£3.7m
Total costs	48.5	£62.0m

Costs have been calculated on the same basis as those in section C1.

3. A detailed estimate of savings over the next 15 years.	
(a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.	
Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at 31.3.2021: £ 31.3.2024: £ 31.3.2027: £ 31.3.2030: £ 31.3.2033: £	
(b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).	
(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.	

Attached as ANNEX number 4.

4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.
(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).	
(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.	
(d) Please explain how the implementation costs will be met by the participating authorities.	

Attached as ANNEX number 5.

5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.
(a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.
(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.
(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

The Pool is committed to publishing the above information. We anticipate there being collaboration between pools in agreeing on the best format for reporting such data as this will allow for greater consistency overall.

The main cost of implementing pooling will arise from the cost of asset transitions. The Pool is likely to use specialist transition managers for this purpose and will receive detailed reports both before and after each transition providing a breakdown of expected costs and then the actual costs incurred. These will be monitored against the original estimates made in this document of the likely level of costs incurred from asset transfers.

Detailed cost analysis by asset class will also be carried out by participating funds in order to measure the actual level of cost savings achieved against the provisional estimates included at this point.

Criterion D: An improved capacity to invest in infrastructure

1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"	
(a) Please state the pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	
(b) Please state the pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	
Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.	

(a) Current investments in infrastructure account for 0.3% of Pool assets.

(b) The aggregate target allocation to infrastructure across funds within the Pool is 1% of assets.

2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or "fund of funds" arrangements.	
(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.	
(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.	

The Pool has a representative on the Cross Pool Collaboration Infrastructure Group. The officers representing the Pools have agreed that they are committed to working together, to determine current capacity and capability, share and develop experience and skills in infrastructure development, and explore options for a more formal National Initiative on Infrastructure Investing.

In common with most other funds, the infrastructure investments of the Wales funds are managed by external investment managers and are varied across geographies, managers and most significantly risk / return budgets.

The funds within the Pool acknowledge that they currently have less invested in infrastructure than a number of the other pools and are very supportive of the interim conclusions of the Cross Pool Group, namely that:-

- All Pools would at the very least benefit from sharing knowledge and would explicitly seek not to compete against each other.
- Collaboration will be greatly facilitated through working as a small number of Pools rather than 89 funds.
- There will be considerable scope to achieve significant cost savings through collaboration, and this should be an early priority for the National Initiative.
- There will be considerable opportunity to improve governance rights, negotiate better/more appropriate structures (e.g. longer term vehicles, greater UK investments) and gain priority access to co-investment opportunities.
- Given the level of interest in infrastructure, adding to the number of primary market participants and increasing competition would not be advantageous. Thus, working actively with other investors and investing directly as a co investor, is regarded as the appropriate mechanism for the LGPS to make direct infrastructure investments.
- Overall we expect a "hybrid" model to emerge across the Pools, with some investment in funds and some direct investment through co-investments and other bespoke structures, with widespread collaboration to reduce costs and increase capacity.
- It is important that appropriate delegations are in place to ensure decisions can be made quickly when opportunities arise. Individual funds may have specific investment criteria but typically will be managed by the Pools in association with the National Initiative.
- It is anticipated that the National initiative will need to procure the services of a number of market participants rather than just one in order to access all relevant areas of the asset class to satisfy the risk/return requirements of individual funds and Pools.

The Wales Pool is very supportive of the work of the Cross Pool group and looks forward to the group continuing to develop collaboration and work towards a national initiative in the next stage.

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.	
(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	
(b) Please describe the conditions in which this allocation could be realised.	

(a) Our ambition in the short to medium term is to have at least 5% of assets (up from the current 0.3%) invested in infrastructure investments with a longer term aspiration set at 10% - subject to satisfactory investments being available.

However, it is recognised by the Pool that allocations to infrastructure represent asset allocation decisions and are therefore the responsibility of individual funds.

(b) We acknowledge that infrastructure in principle is an attractive investment given the nature of the funds' liabilities.

We anticipate that larger scale will allow the asset class to be accessed at lower cost than at present. Other things being equal, this improves the risk / return characteristics of the asset class to participating funds. National vehicles will also allow for easier access from a governance perspective.

Investments need to be available offering an appropriate level of diversification – global infrastructure rather than purely UK - and suitable access to preferred stages of development (green-field / brown-field etc.). However, the Pool is encouraged by the focus of the Cross Pool group in identifying ways of accessing a wide range of potential investments.

Prospective returns also need to be satisfactory. It is claimed that there is currently a lot of capital chasing opportunities to purchase infrastructure assets in many regions and overpaying for such long term assets would seriously impinge on long term returns to investors.

Annex 1 – section A2

Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

Submitted by Clwyd Pension Fund

The Fund will aim to include all of its assets within the pooling arrangements unless there are technical barriers preventing them from doing so. The ability to transfer the assets detailed below will depend on the capabilities of the appointed operator.

Liability Matching Mandate- Flight-path- £329m as at March 2015 – Clwyd Fund

This is a specific strategy to manage the Clwyd Fund's individual liability risks using liability driven investment (LDI). It is a fundamental part of the Clwyd Fund's investment and funding strategy and its implementation is key to the Actuary when determining financial assumptions during the Actuarial Valuation process.

The Clwyd Fund has put in place a strategy based upon long-term management of asset and liability risk, namely volatility on interest rates and inflation. This "flight-path" approach aims to add interest rate and inflation protection on an incremental basis to manage more effectively the move back to 100% funding via a trigger based implementation mechanism

Given the investment and governance complexities involved in implementing a Fund specific LDI portfolio and 'flight-path', this may not be viable under the Wales pooling arrangement. However, the Clwyd Fund remains open-minded to consider a different vehicle or structure provided by the Wales Pool, or a cross pool solution, should a more cost-effective approach become available in the future.

The costs of 'undoing' the arrangements in place would be significant. As a broad rule of thumb, this is likely to be in the order of £2-3m (or 1% of assets in the mandate) and would also require significant officer time and involvement from advisors.

Managed Account Platform – £139m **as at March 2016** – Clwyd Fund

The Clwyd Fund's managed futures and hedge fund allocations are managed tactically by a specialist fund manager through a vehicle that has been specifically created for the LGPS and allows individual LGPS Funds or Pools to design and build their own bespoke strategic allocations.

This replaced the previous (traditional) hedge fund of fund approach **from August 2015,** which had higher fees and less transparency, and did not allow the Clwyd Fund to manage specific investment risks on a bespoke and tactical basis.

Although there are only two LGPS funds currently invested, this new vehicle is being actively marketed across other LGPS funds and pools (with significant engagement to date) and it is anticipated that others will adopt this approach which will trigger further fee breaks for all LGPS investors.

Dependent of the operator and model selected by the Wales Pool this vehicle could be added as a sub-fund to a Wales ACS (or other vehicles established for other asset classes). The provider of the Managed Account Platform has promised the LGPS significant flexibility to enable those LGPS funds that have allocated assets to the vehicle the flexibility to retain their exposure post the creation and implementation of the various Asset Pools. Therefore, we will be asking for engagement from the All Wales Pool with the provider to further understand this flexibility and how it can be used for the benefit of the Clwyd Fund (and other LGPS funds within the vehicle) within the Pooling environment.

However, the Clwyd Fund would also consider any solutions from the Wales Pool which provided the same exposures, transparency and flexibility at a similar cost.

Annex 2 – section A5

Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

The participating funds will initiate a procurement exercise in the second half of 2016 in order to appoint a third party operator. An Information Day has already been held to consider the range of services which could be available from providers – and wider discussions have been held between the funds on the relative merits of taking particular services. NOTE: Advice on the procurement process to be used will need to be considered further.

The Joint Governance Committee for the Pool will be formally constituted in time to make the formal recommendation in relation to appointment of the operator.

Discussions will then be held with the appointed operator in order to agree the investment sub-funds and the proposed timescale for transferring assets.

The proposed timetable is summarised below.

Establish Shadow Joint Governance Committee	By 30 Sep. 2016
Complete procurement exercise for third party operator Establish formal Governance Committee	By 31 Dec. 2016
Detailed specification of requirements agreed with operator including phasing of asset transition	By 30 June 2017
First transitions of listed assets	By 31 Dec. 2017

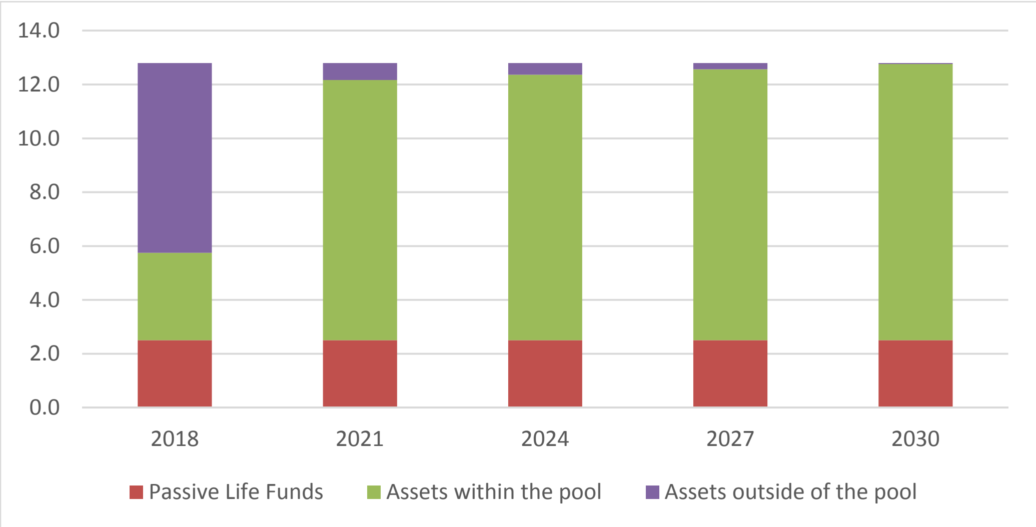
Annex 3 – section A5

Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

The intention is that the implementation of asset pooling will be addressed by the Pool on a phased basis, considering the detailed approach to each of the major asset classes in turn.

However, we anticipate that over 95% of assets will form part of the Pool by April 2021.

We have shown below the estimated movement of assets in aggregate between now and April 2030. This timetable is indicative and will be subject to confirmation following discussions with the appointed operator.



The assumptions underlying the chart above are set out in the table below.

Assets	Rate of transition into Pool
Passive assets	100% by April 2018
Active equities	50% by April 2018 Remainder by April 2021
Active Fixed Income	100% within period April 2018-21
Property	70% by April 2021 (units in liquid funds) Remainder to transfer gradually to 2030 (maturing of fixed life funds)
Liquid alternatives	100% within period 2018-21
Illiquid Alternatives	Gradual transfer over period 2018-2030 as fixed life funds mature

Annex 4 – section C3

Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

By necessity, any forecasts of future costs savings at this point are extremely tentative. Although we are confident that the aggregation of assets will lead to lower management costs, it is difficult to predict the levels of fees which can be obtained until investment managers are obliged to conduct real commercial negotiations about their future business levels.

We have considered possible savings across asset classes as a range of potential outcomes reflecting the uncertainty surrounding the final outcomes. These are shown in the table later in this section. For the purposes of the table below and our projections in Annex 5, we have used the mid-point of those projected ranges.

Actual costs payable will be driven by changes on asset mix, the change in value of assets and the application of performance related fees. The estimated savings below are based on an unchanged asset mix and March 2015 asset values.

Savings will not be achieved on a pro rata basis across participating funds but will depend on the degree of change from their current arrangements and investment costs to the new pooled arrangements.

Total value of savings (per annum) estimated to be achieved as at:

31.3.2021: £8.4m

31.3.2024: £9.8m

31.3.2027: £11.3m

31.3.2030: £12.5m

31.3.2033: £12.5m

The cost savings have been estimated by considering each of the asset classes in which the participating funds currently invest and using the data provided by CEM Benchmarking to find the current level of costs being incurred by investments in these areas. We have then considered the level of savings which might be achievable within each asset class, whilst bearing in mind that we have not yet decided on all of the specific sub-funds which will be put in place.

Asset class	Current cost (bps)	Potential savings (bps)	Total pool assets	Annual estimated potential savings £m	Rationale
Passive (24% of Pool assets)	[redacted]	[redacted]	£3.1bn	1.8-2.0	New reduced fee scale already agreed with single manager and will apply with effect from April 2016.
Active equity (44% of Pool assets)	43.3	5-10	£5.6bn	2.8-5.6	Assets invested in UK and global equity mandates totalling £1.3bn and £2.8bn respectively will be aggregated into 'core' and 'high alpha' mandates. Savings based on reduced number of mandates and increased manager mandate sizes.
Active fixed income (17% of Pool assets)	22.2	2-4	£2.2bn	0.5-0.8	Current mandates in this area vary widely in scope. A small number of new sub-funds are likely to be established to meet the objectives of each fund. Pool savings based on reduced number of mandates but will depend on the final sub-funds provided.
Property (8% of Pool assets)	108.1	20-30	£0.8bn	1.7-2.5	UK property fund holdings could be pooled initially under a single mandate. The long term potential for establishing a direct property mandate is being explored. Savings assume streamlining of any fund-of-fund arrangements in the short term in favour of a managed account and a transition over the long term to holding more direct assets.
Private Equity (3% of Pool assets)	274.6	50-100	£0.4bn	2.1-4.2	Current investments in closed end funds will be allowed to mature outside of the pool. Savings assume a gradual move from a fund-of-funds model to either a single adviser or alternative cross-pool solution
Infrastructure (<1% of Pool assets)	261.8	50-100	£0.1bn	0.3-0.6	Assumes a gradual move from a fund-of-funds model to a single advisor model or use of a national infrastructure investment
Other asset classes			£0.5bn	0-0.1	Individual allocations are very small. Some modest savings may be possible on an ad-hoc basis.

Source of savings estimates: Analysis from Project POOL, Hymans Robertson research universe.

The estimated savings above provide a range of £9.1m to £15.8m. The mid-point of this range implies a total annual savings rate of circa £12.5m p.a. by 2030.

Annex 5 – section C4

Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

By appointing a third party operator, the Pool will avoid costs incurred in setting up a regulated body from outset. We anticipate that the costs incurred will be through the allocation of internal officer resource and advisory fees from external parties for services such as legal services, project management, taxation and legal advice. Estimates of the possible level of transition costs are shown later in this section.

In the table below, we have given an indication of potential costs associated with setting up the Wales Pool arrangements.

Costs	Total - three year period to April 2018 £000s	Total - three year period to April 2021 £000s
Internal officer resource	150-250	50-150
Project management	50-150	-
Legal advice	100-200	0-100
Other advisory fees (taxation, procurement, transition, investment etc.)	200-300	0-100
	500 - 900	50-350

Transition costs

Transition costs will be a very significant component of the costs of implementing the pooling arrangements. At this stage, the level of trading that will be required is difficult to estimate. We are still to confirm the exact number of new strategies which will be available within the pooling arrangements and therefore the degree of mandate consolidation which will be required.

For illustration, in the tables below, we have shown the range of costs which might be incurred across the four liquid asset classes in two potential scenarios - where respectively 30% and 70% of assets within terminated mandates require to be traded.

Transition costs associated with the consolidation of the passively managed assets will be covered by the investment manager.

Asset class	Active UK Equity	Active Global Equity	Div. Growth Funds	Active Bonds
Value of assets	£1.3bn	£2.8bn	£0.2bn	£2.1bn
Current number of strategies	8	14	3	10
Potential number of new strategies	4	6	2	5
Value of assets requiring transition	£650m	£1.6bn	£60m	£1bn
Explicit trading costs (exc. market impact and opportunity cost) (in basis points)	33	17.6	20	29.6
Costs if 30% of assets within portfolios require to be traded (60% turnover)	£1.3m	£1.7m	£0.1m	£1.9m
Costs if 70% of assets within portfolios require to be traded (140% turnover)	£3.0m	£3.9m	£0.2m	£4.4m

In the above illustrations, the estimated transition costs range from £5.0m to £11.5m. We have used these figures in our projections below.

In terms of the timing of these transaction costs, we assume that these will be incurred at the time that assets are transferred into the Pool. In practice, there may be some timing differences.

Transaction costs within property can be significant though we are assuming that there will be minimal transition activity in the short / medium term. A long term ambition for the property assets has still to be agreed. A move to a fully direct mandate will incur higher initial costs but generate higher long term savings.

Illiquid assets will not incur transaction costs as they will be allowed to mature without forced realisation of investments.

Break-even analysis

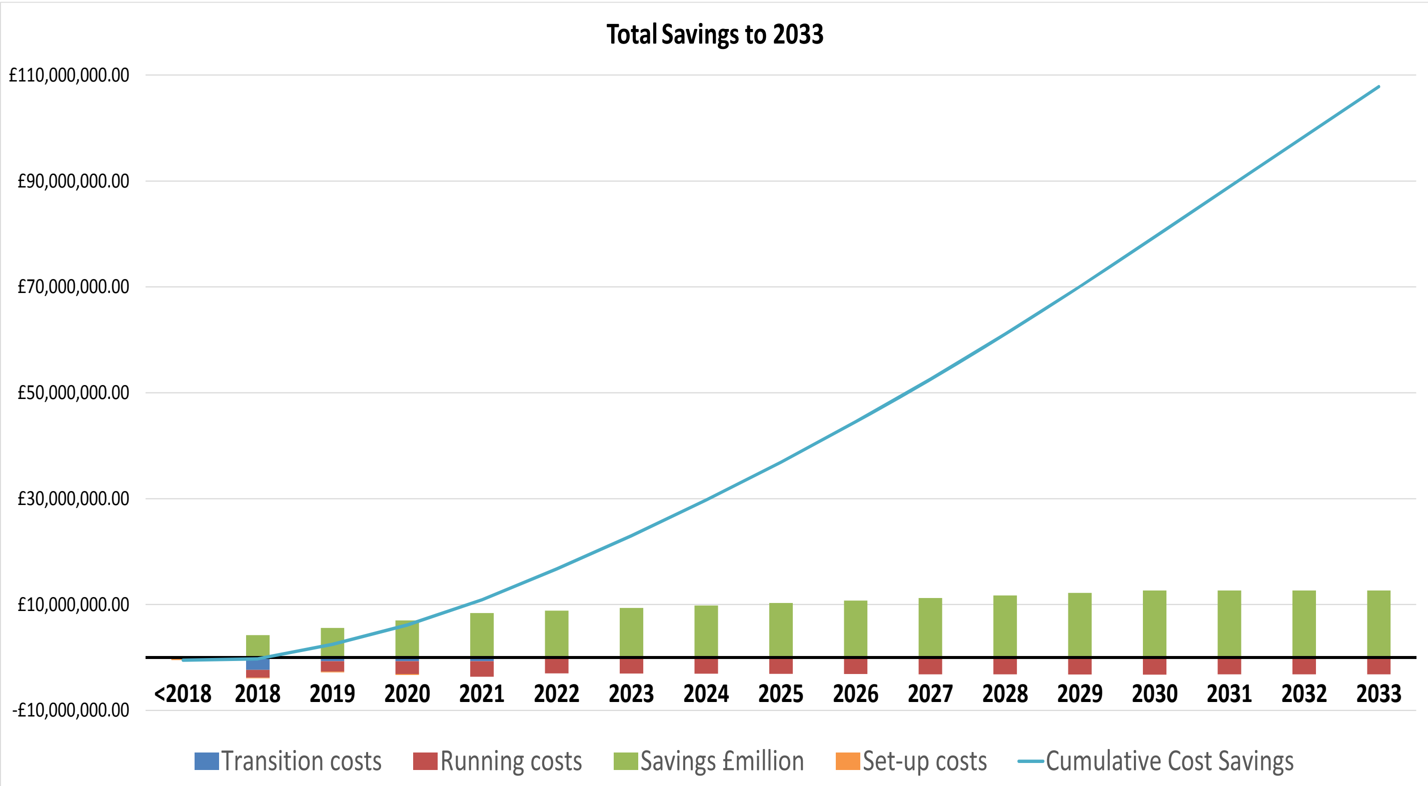
For the purposes of forecasting a break-even point, we have used the following assumptions:-

- The central estimate of cost savings as set out in Annex 4.
- The timing of these cost savings is equivalent to the date of assets entering the Pool - with the exception of property where savings are expected to come through gradually over the 12 year period.
- Running costs of the Pool equivalent to [redacted] of the assets in the Pool at any point, reflecting operator fees and internal resource costs.
- Set-up costs of £1m divided between the periods to April 2018 and to April 2021.
- The two estimates of transition costs above.

With total transition costs of £5m

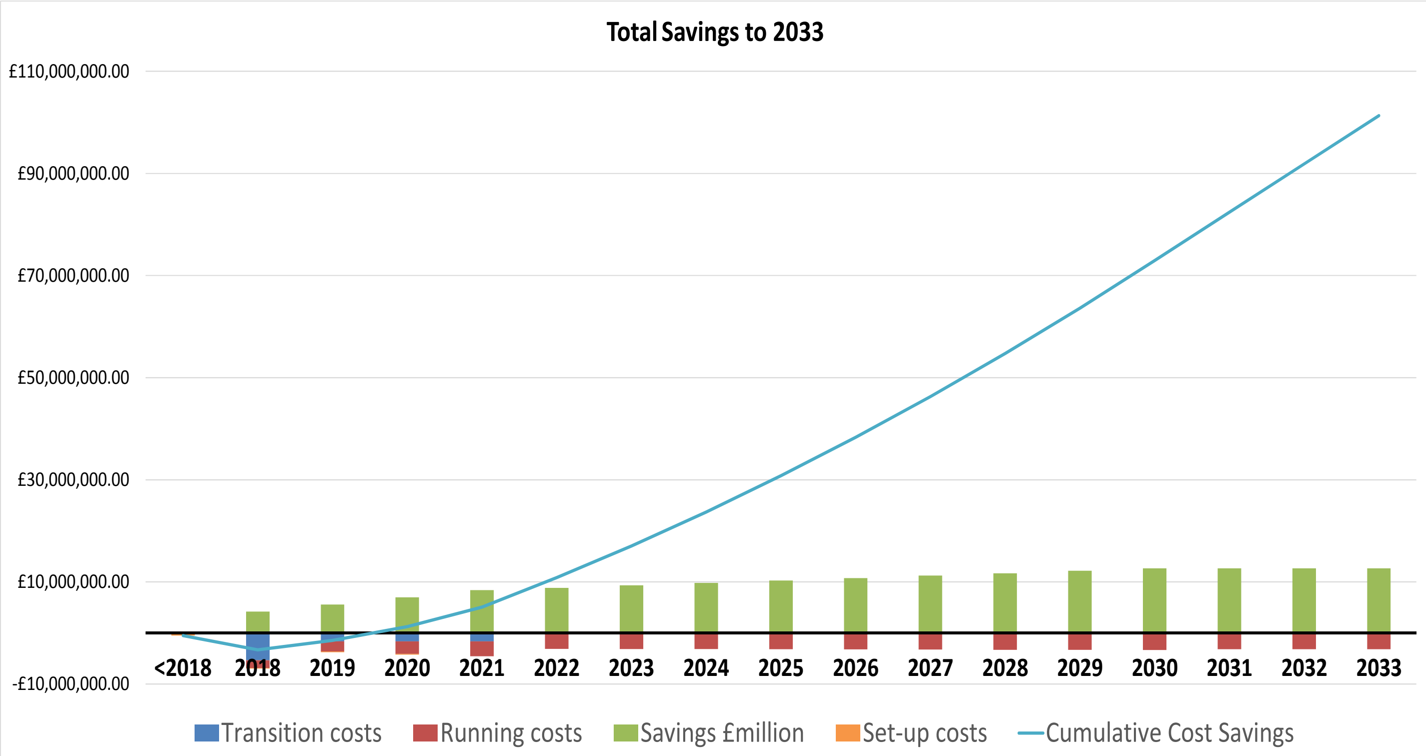
Given the passive fee savings which are already being earned by the Pool with effect from April 2016 and the fact that the Pool will not be incurring the significant costs of setting up its own operator, the benefits of the pooling arrangement flow through quickly – with a break-even point in 2018/19 as shown in the chart below.

By 2033, net annual savings of £9.5m p.a. are being earned with cumulative savings of circa £110m by that date.



With total transition costs of £11.5m

With higher transition costs of £11.5m assumed, the net savings still reach a level of £9.5m p.a. but the break-even date is pushed back to 2019/2020.



Active and passive management

The model above allows the participating funds to consider the impact of changes in assumptions and alternative approaches.

We have been asked to make savings forecasts on the basis of an unchanged asset mix. Each fund will also decide on the extent of its own use of active and passive management.

There are no current plans for individual funds to change their respective allocations to active and passive management. As an indication of the sensitivity of the change in total costs to any such changes, we have shown below the impact of a movement of 5% and 10% of Pool assets respectively moving out of active equity mandates and into passively managed mandates.

- 5% of assets (£638m) – additional cost reduction of [redacted] before transition costs
- 10% of assets (£1.28bn – additional cost reduction of [redacted] before transition costs

However, individual funds will also take into account the expected outcomes in terms of returns net of fees.