



# Wales Pension Partnership Business Plan 2020-2023



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# Introduction

This is the business plan for the Wales Pension Partnership ('WPP'), the business plan details the WPP's priorities and areas of focus for 2020/21, 2021/22 and 2022/2023. This business plan was approved by the WPP Joint Governance Committee on 12 March 2020. The business plan is constantly monitored and will be formally reviewed and agreed every year.

The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives of the WPP over the next three years
- Introduce the WPP's policies and plans
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

# About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools.

We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

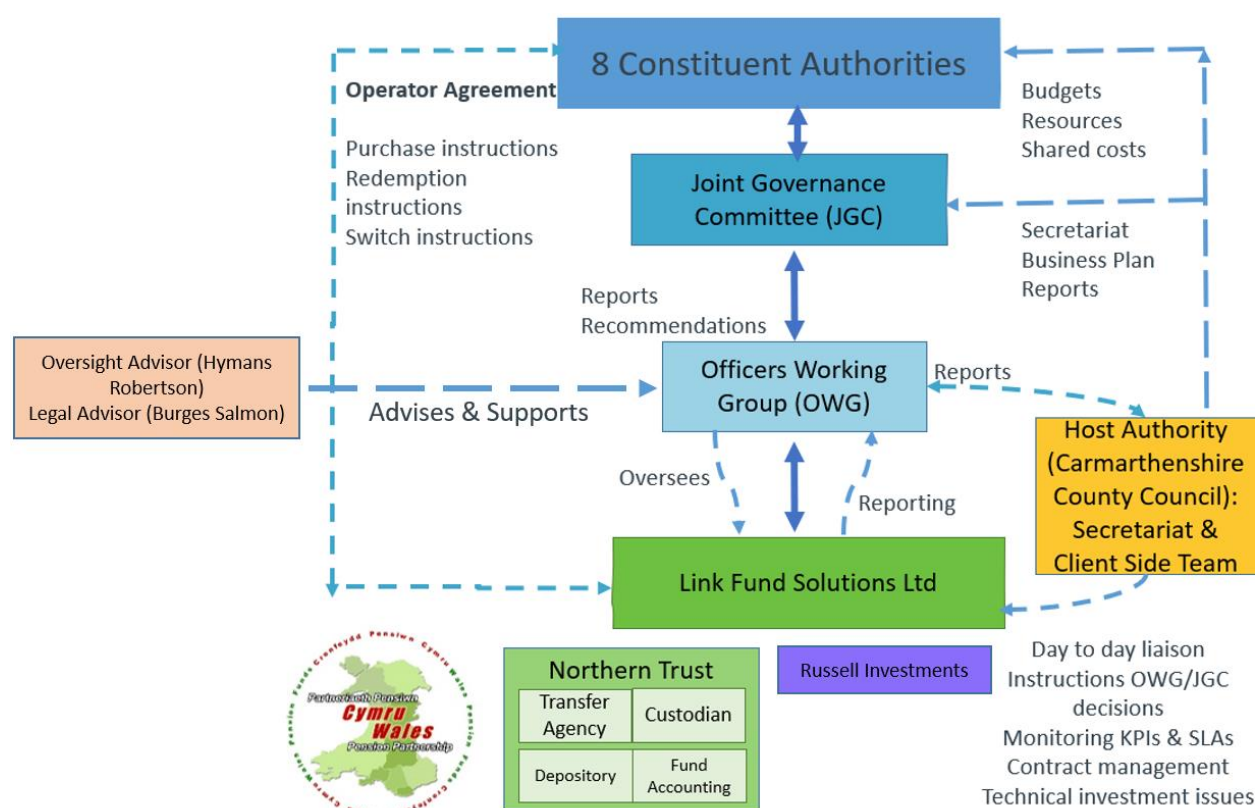
Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities.

We have a clear vision and are in control of the pace we take to ensure we meet our goals. The eight Constituent Authorities of the Wales Pension Partnership are:



# Governance

The WPP places a strong emphasis on governance and the diagram below illustrates the governance structure established by the WPP. In addition, the WPP Governance Matrix outlines the roles and responsibilities of the WPP's Joint Governance Committee, Officer Working Group, Host Authority, Operator, Oversight Advisor and Constituent Authorities (Pension Committees), this can be found on the WPP website.



Risk management is embedded into the governance of the WPP. The WPP has adopted a policy of seeking to identify and measuring key risks and to ensure that suitable controls and governance procedures are in place to manage these risks. The WPP's focus on risk management is evidenced by the fact that several of the WPP's work plan items relate to risk management.

During the course of this business plan the WPP will seek to develop mechanisms, frameworks and process for managing the following key risks:

- The service delivery and performance of its Operator
- Ongoing performance of investment managers
- The robustness of the WPP governance structure
- Risk associated with Climate change

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP will ensure the meeting of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers will also be made publicly available. Local Pension Board engagement days will also be held regularly as a means of fostering stakeholder engagement.

The WPP recognises the importance of all of its stakeholders to reflect this the WPP has put in place an Engagement Protocol Framework, this is carried out via the following engagement mechanisms:

| Engagement mechanisms                   | Frequency      |
|---|----------------|
| • Strategic Relationship Review meeting | Bi-Annual      |
| • JGC Engagement                        | Quarterly      |
| • OWG Engagement                        | Every 2 Months |
| • Annual Shareholder Day                | Annual         |
| • Pension Fund Committees               | Annual         |
| • Manager Engagement Days               | Bi-Annual      |
| • Member Communications                 | Annual         |
| • Engagement via the website & LinkedIn | Continuous     |

# Objectives

The primary objectives for WPP are outlined below, these have been formulated following consultation with the Constituent Authorities on their requirements of the pool:

- 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
- To deliver an investment framework that achieves the best outcomes for its key stakeholders; the Constituent Authorities. The Constituent Authorities will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers.

# Beliefs

The WPP holds the following beliefs, these are used to guide the WPP's decision making, policies and business plans. These beliefs are reviewed annually.

- The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented.
- Good governance should lead to superior outcomes for the WPP's stakeholders.
- Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders.
- Responsible Investment alongside consideration and evidential management of Environmental, Social and Governance issues should result in better outcomes for the WPP's stakeholders.
- Effective internal and external communication is vital to achieving the WPP's objectives.
- External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise.
- Fee and cost transparency will aid decision making and improve stakeholder outcomes.
- Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve.
- A flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.



# Policies

The WPP's key policies, registers and plans are listed below and can be found on the WPP website at:

<https://www.walespensionpartnership.org/>

These documents are reviewed on at least an annual basis and the WPP will continually assess whether any additional policies, registers or plans are required.

- Responsible Investment Policy
- Training Plan
- Governance Matrix
- Communication Plan

The WPP workplan includes a number of additional governance documents that will be developed during the next three years, these will be made available on the WPP website.

# Work Plan

The table below shows the key priorities and objectives that the WPP aims to complete over the next three years.

## Governance

The WPP believes that good governance leads to better outcomes for its stakeholders, as such it will further develop its governance framework by developing additional policies, registers, plans and carrying out ongoing reviews of its existing governance documents and structure.

| Work to be completed                                      | 2020 - 2021 | 2021 - 2022 | 2022 - 2023 |
|---|-------------|-------------|-------------|
| • Development of Climate Risk Policy                      | ✓           |             |             |
| • Development of Conflict of Interest Policy              | ✓           |             |             |
| • Development of a WPP Voting Policy                      | ✓           |             |             |
| • Formulation of a WPP Governance Manual                  | ✓           |             |             |
| • Formulation of a WPP Risk Register                      | ✓           |             |             |
| • Review of Inter Authority Agreement                     |             | ✓           | ✓           |
| • Review of Joint Governance Committee Terms of Reference |             | ✓           | ✓           |
| • Review of Officer Working Group Terms of Reference      |             | ✓           | ✓           |
| • Development of a WPP Business Continuity Plan           |             | ✓           | ✓           |
| • Development of a WPP Complaints Policy                  |             |             | ✓           |
| • Development of a WPP Rebalancing Policy                 |             |             | ✓           |
| • Development of a WPP Breach and Errors Policy           |             |             | ✓           |
| • Annual review and update of WPP Business Plan           | ✓           | ✓           | ✓           |
| • Annual review of RI policy                              | ✓           | ✓           | ✓           |

## Ongoing Establishment

The WPP is proud of its progress to date in regard to the pooling of assets and will continue to allocate resources to ensure that all suitable assets are pooled. To date the WPP has pooled 50% of its assets and by the end of March 2021 the WPP plans to have pooled 70% of its assets.

| Work to be completed  | 2020 - 2021 | 2021 - 2022 | 2022 - 2023 |
|---|-------------|-------------|-------------|
| • Launch of Emerging Market equity tranche                              | ✓           |             |             |
| • Launch of Fixed Income sub-funds                                      | ✓           |             |             |
| • Launch of Private Markets sub-funds                                   | ✓           | ✓           | ✓           |
| • Review and develop a mechanism to pool any suitable non-pooled assets |             |             | ✓           |

## Operator Services

The Operator, alongside the third parties that it employs on behalf of the WPP, are critical to the ongoing activities of the WPP, therefore service delivery of the Operator and third-party suppliers pose a material risk to the WPP. The WPP will prioritise the development of a framework that will allow it to monitor and evaluate the Operator's service delivery, this framework will be imbedded into the WPP risk monitoring mechanisms.

| Work to be completed   | 2020 - 2021 | 2021 - 2022 | 2022 - 2023 |
|--|-------------|-------------|-------------|
| • Formulation of a WPP Operator Oversight Framework  | ✓           |             |             |
| • Review of Operator's contract  | ✓           | ✓           |             |
| • Review and development of Operator KPI reporting   | ✓           | ✓           |             |
| • Market Review of development with the Operator market  |             | ✓           |             |
| • Setting up and implementing a framework for monitoring the performance of Russell as investment advisors to Link |             | ✓           | ✓           |
| • WPP Operator re-tender   |             |             | ✓           |
| • Formulation of new Operator contract   |             |             | ✓           |

## Communication, Training and Reporting

The WPP's objective is to achieve material cost savings while improving or maintaining investment performance after fees, to track its progress towards this objective the WPP will continue to develop its investment performance mechanism. In particular the WPP will incorporate ESG metrics into its performance reporting to reflect the significance of ESG factors on investment performance.

The WPP wants to ensure that internal stakeholders and external parties are aware of the WPP's progress and will publish a WPP Annual Progress Update to proactively communicate its progress.

| Work to be completed   | 2020 - 2021 | 2021 - 2022 | 2022 - 2023 |
|--|-------------|-------------|-------------|
| • Development of Investment Manager performance reporting, including ESG metrics and climate change risk | ✓           | ✓           |             |
| • Formulation of the WPP's annual training plan  | ✓           | ✓           | ✓           |
| • Formulation of the WPP's Annual Newsletter   | ✓           | ✓           | ✓           |

## Resources, budget and fees

The WPP recognises that insufficient resources poses a significant risk to its ability to deliver an investment framework that achieves the best outcomes for its key stakeholders, the WPP will carry out the following pieces of work to guarantee that it has suitable resources to deliver on this commitment.

| Work to be completed                                       | 2020 - 2021 | 2021 - 2022 | 2022 - 2023 |
|--|-------------|-------------|-------------|
| • Appointment of legal advisor                             | ✓           |             |             |
| • Annual review of resources and capacity                  | ✓           | ✓           | ✓           |
| • Formulation of Annual WPP Budget                         | ✓           | ✓           | ✓           |
| • Review and Monitoring of Fees (including Link & Russell) | ✓           | ✓           | ✓           |

# Training Plan 2020-2021

The WPP must have appropriate knowledge and understanding of:

- the regulations and markets relating to the Local Government Pension Scheme (LGPS);
- the pooling of Local Government Pension Funds; and
- relevant investment opportunities.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

The list below outlines the training topics that the WPP plans to complete during the 2020-2021 financial year. The full WPP training plan can be found on the WPP website.

- Managing Conflict of interest
- Operator Monitoring
- Performance metric (including RI metrics)
- Progress of other LGPS Pools
- Collaboration Opportunities
- Climate Risk
- Asset Class – Alternatives (Private Markets)
- Decision Logging
- Identifying lessons to be learnt
- Transparency Requirements
- Enacting guidance and regulation

## Budget 2020-2023

The table below outlines the WPP's budget for the next three years.

|  | 2020-21       | 2021-22       | 2022-23       |
|--|---------------|---------------|---------------|
|  | £'000         | £'000         | £'000         |
| Host Authority *                         | 181           | 208           | 216           |
| External Advisors *                      | 580           | 580           | 580           |
| <b>TOTAL to be recharged</b>             | <b>761</b>    | <b>788</b>    | <b>796</b>    |
|  |               |               |               |
| Operator Services **                     | 27,557        | 32,033        | 35,136        |
| <b>TOTAL to be deducted from the NAV</b> | <b>27,557</b> | <b>32,033</b> | <b>35,136</b> |

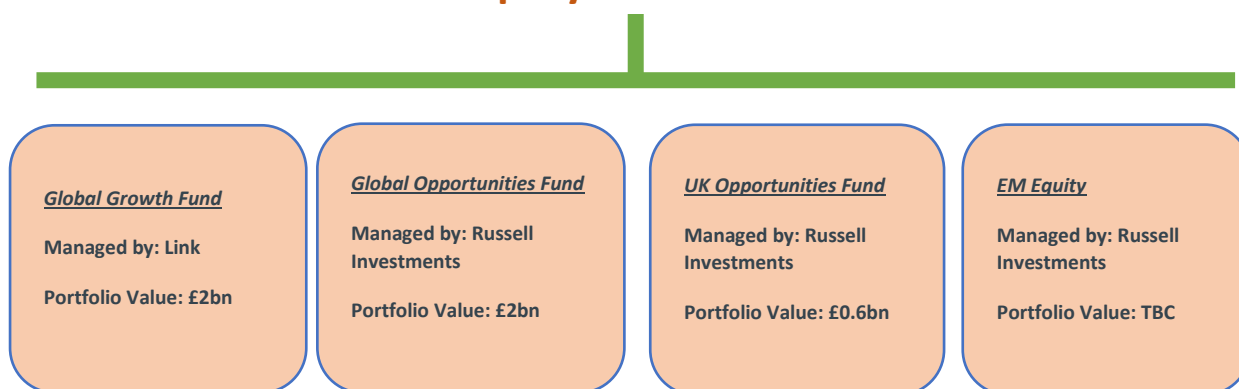
*\*Host Authority and External Advisor costs are to be funded equally by all eight of the WPP's Constituent Authorities and these will be recharged on an annual basis.*

*\*\*Operator Services costs are based on each Constituent Authority's percentage share of WPP assets (held with the Operator) and are deducted directly from the Net Asset Value (NAV) of the Constituent Authority's assets (held with the Operator).*

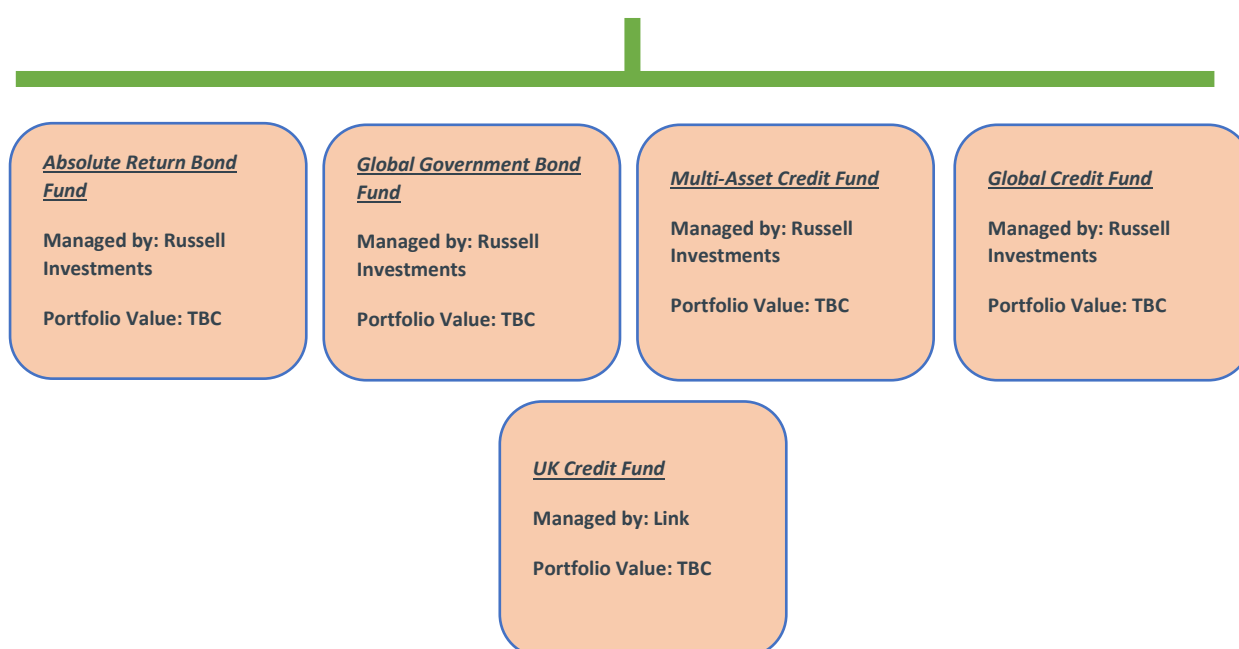
# Investments & Performance

The WPP's Constituent Authorities have total assets of circa £17.5bn (as at 31 March 2019). The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP authorities in the form of insurance policies. The diagram below outlines the WPP's existing Sub-Funds:

## Equity Sub-Funds



## Fixed Income Sub-Funds



The Officer Working Group receives quarterly, six monthly and annual performance reports, the Group reviews and challenges the performance of Investment Managers on behalf of the WPP.

The WPP hosts regular manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at local level, this will include manager attendance at Pension Committees.

| Sub Fund                    | Performance benchmark   | Participating Funds                      | Managers  | Launch Date |
|-----------------------------|---|--|---|-------------|
| Global Growth Fund          | MSCI ACWI ND  | RCT, Dyfed, Gwynedd and Powys            | Baillie Gifford, Veritas and Pzena  | Feb 19      |
| Global Opportunities Fund   | MSCI ACWI ND  | Swansea, Torfaen, Gwynedd, RCT and Clwyd | Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ and Oaktree | Feb 19      |
| UK Opportunities Fund       | FTSE 100  | Cardiff and Torfaen,                     | Majedie, Lazard, Baillie Gifford, Investec and Liontrust                    | Sept 19     |
| Global Credit Fund          | Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged) | Cardiff, Dyfed, Powys, Torfaen           | TBC   | TBC         |
| Global Government Bond Fund | FTSE World Government Bond Index (GBP Hedged)                 | Cardiff, Torfaen                         | TBC   | TBC         |
| Multi-asset Credit Fund     | 3-month GBP LIBOR + 4% p.a.                                   | Cardiff, Gwynedd, Powys, Swansea, Clwyd  | TBC   | TBC         |
| Absolute Return Bond Fund   | 3-month GBP LIBOR + 2-3% p.a.                                 | Gwynedd, Powys, RCT, Swansea             | TBC   | TBC         |



|                |                                  |     |     |     |
|----------------|----------------------------------|-----|-----|-----|
| UK Credit Fund | iBOXX £ Non-Gilts All Maturities | RCT | TBC | TBC |
|----------------|----------------------------------|-----|-----|-----|

## Contact Details

If you require further information about anything in or related to this business plan, please contact the Wales Pension Partnership:

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Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website can be found here:

<https://www.walespensionpartnership.org/>

