



Report of the Section 151 Officer

Local Pension Board 5th Jan 2018

Wales Pension Partnership Investment Pooling- An Update

Purpose:	To update The Local Pension Board 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
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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

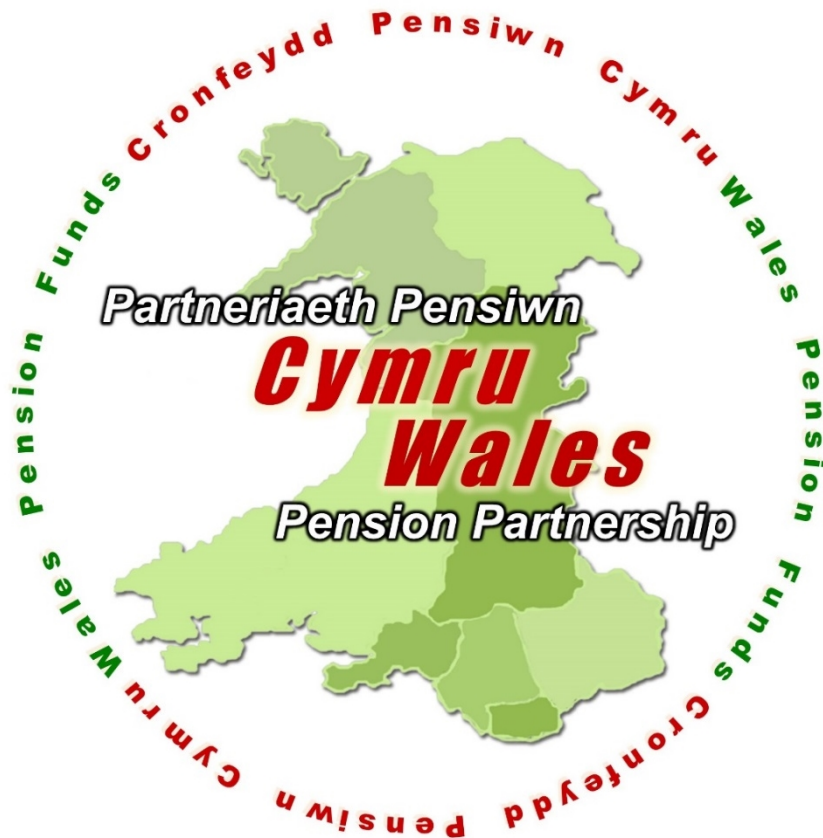
- 5.1 Financial implications are indicated within the submission.

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 tender 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

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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