

Document Pack



Wales Pension Partnership Joint
Governance Committee,
Democratic Services Unit,
Chief Executive's Department,
Carmarthenshire County Council,
County Hall,
Carmarthen SA31 1JP.

TUESDAY, 19 MARCH 2019

**TO: ALL MEMBERS OF THE WALES PENSION PARTNERSHIP JOINT
GOVERNANCE COMMITTEE**

I HEREBY SUMMON YOU TO ATTEND A MEETING OF THE **WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE** WHICH WILL BE HELD IN THE **CHAMBER, SWANSEA COUNCIL, GUILDHALL, SWANSEA. SA1 4PE. AT 10.00 AM, ON WEDNESDAY, 27TH MARCH, 2019** FOR THE TRANSACTION OF THE BUSINESS OUTLINED ON THE ATTACHED AGENDA

Mark James

**CHIEF EXECUTIVE
CARMARTHENSHIRE COUNTY COUNCIL**

PLEASE NOTE: THIS MEETING WILL BE FILMED FOR LIVE OR SUBSEQUENT BROADCAST. THE IMAGES AND SOUND RECORDING MAY ALSO BE USED FOR TRAINING PURPOSES..

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**WALES PENSION PARTNERSHIP
JOINT GOVERNANCE COMMITTEE
8 MEMBERS**

(1 Member from each Constituent Authority)

CARMARTHENSHIRE COUNTY COUNCIL

COUNCILLOR ELWYN WILLIAMS

CITY & COUNTY OF SWANSEA

COUNCILLOR CLIVE LLOYD

CITY OF CARDIFF

COUNCILLOR CHRISTOPHER WEAVER

FLINTSHIRE COUNTY COUNCIL

COUNCILLOR DAVID HUGHES

GWYNEDD COUNTY COUNCIL

COUNCILLOR JOHN PUGHE ROBERTS

POWYS COUNTY COUNCIL

COUNCILLOR PETER LEWIS

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCILLOR MARK NORRIS

TORFAEN COUNTY BOROUGH COUNCIL

COUNCILLOR GLYN CARON

A G E N D A

1. APOLOGIES FOR ABSENCE
2. DECLARATIONS OF INTEREST
3. TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 25TH SEPTEMBER 2018 5 - 10
4. PRESENTATION BY LINK AND HOST AUTHORITY ON MILESTONES AND PROGRESS UPDATE 11 - 20
5. BUDGET 2019-20 21 - 26
6. WORKPLAN 2019-20 27 - 32
7. RESPONSIBLE INVESTMENT - DEVELOPMENT OF POLICY 33 - 70
8. LINK ENGAGEMENT PROTOCOL 71 - 76
9. MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT (MHCLG) CONSULTATION ON DRAFT STATUTORY GUIDANCE ON ASSET POOLING IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) 77 - 94
10. EXCLUSION OF THE PUBLIC

THE REPORT RELATING TO THE FOLLOWING ITEM IS NOT FOR PUBLICATION AS IT CONTAINS EXEMPT INFORMATION AS DEFINED IN PARAGRAPH 14 OF PART 4 OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) (WALES) ORDER 2007. IF, FOLLOWING THE APPLICATION OF THE PUBLIC INTEREST TEST, THE COMMITTEE RESOLVES PURSUANT TO THE ACT TO CONSIDER THIS ITEM IN PRIVATE, THE PUBLIC WILL BE EXCLUDED FROM THE MEETING DURING SUCH CONSIDERATION.
11. PRESENTATION BY LINK / RUSSELL ON FIXED INCOME SUB FUNDS 95 - 132

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WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

Tuesday, 25 September 2018

PRESENT: Councillor P. Lewis (Vice-Chair)

Councillors:

Cllr. G. Caron, Cllr. D. Hughes, Cllr. C. Lloyd, Cllr. J. Pugh Roberts, Cllr. R. Smith (In place of Cllr. M. Norris), Cllr. C. Weaver and Cllr. D.E. Williams

The following Officers were in attendance:

C. Moore, Joint Committee Section 151 Officer (CCC)
L.R. Jones, Joint Committee Monitoring Officer (CCC)
J. Dong, Chief Treasury & Technical Officer (C&CS)
D. Edwards, Director of Finance (GCC)
C. Salter, Corporate Director of Resources (CoC)
C. Lee, Director Corporate and Frontline Services (RCTCBC)
A. Parnell, Treasury & Pensions Investments Manager (CCC)
D. Powell, Acting Chief Executive (PCC)
D. Fielder, Pensions Finance Manager (FCC)
K. Davies, Head of Corporate Pensions (C&CS)
G. Morgan, Head of Democratic Services (CCC)

Also present:-

Denise Jones- Link Asset Services
Peter Hugh Smith, Link Asset Services
Sasha Mandich, Russell Investments
Jim Leggate, Russell Investments
Eamonn Gough, Link Asset Services
Duncan Lowman, Link Asset Services
Paul Potter, Hymans Robertson

**Siambur Dafydd Orwig, - Gwynedd County Council, Council Offices, Caernarfon,
Gwynedd, LL55 1SH - 10.00 - 11.00 am**

1. APOLOGIES FOR ABSENCE

An Apology for absence was received from the Chair of the Joint Committee, Councillor Mark Norris, of Rhondda Cynon Taf County Borough Council.

Apologies for absence were also received from Nigel Aurelius of Torfaen County Borough Council and of Philip Latham of Flintshire County Council.



2. DECLARATIONS OF INTEREST

Councillor	Nature of Personal Interest
G. Caron	Member of Greater Gwent Pension Fund Wife is deferred Member of the Greater Gwent Pension Fund
D. Hughes	Member of the Clwyd Pension Fund;
P. Lewis	Member of the Powys Pension Fund;
C. Lloyd	Member of the City and County of Swansea Pension Fund;
R. Smith	Member of the Rhondda Cynon Taf Pension Fund;
J. Pugh Roberts	Member of the Gwynedd Pension Fund;
E. Williams	Member of the Dyfed Pension Fund.

(Note: There is an exemption within the Code of Conduct for Members, which allows a member who has been appointed or nominated by their authority to a relevant body to declare that interest but remain and participate in the meeting).

3. TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING HELD ON THE 11TH JUNE 2018

The Chair advised that there was one correction to the minutes as Cllr C. Weaver was not a member of the local government Pension Fund. Cllr Weaver confirmed this was correct.

UNANIMOUSLY RESOLVED that the minutes of the meeting of the Committee held on the 11th June be signed as a correct record, subject to the above amendment.

4. PRESENTATION BY LINK AND HOST AUTHORITY ON MILESTONES AND PROGRESS UPDATE

The Chair welcomed Denise Jones – Head of Change Management of Link Fund Solutions to provide a presentation on Key Milestones and progress in respect of the Wales Pension Partnership.

Ms Jones provided the Joint Committee with a list of the provisional dates for the key milestones, progress to-date on Initial Funds (Global Equity) Tranche 2 (UK and European Equities) and the next steps.

Ms Jones advised that Link were currently working through the reporting templates with a sample pack having been considered by the Officers Working Group in July, it was therefore hoped that agreement on the pack would be received shortly in readiness for the first fund launch.

Ms Jones also informed the Joint Committee that Investment Manager Agreements were underway and it was hoped that all agreements would be signed by the end of September 2018.

In terms of the Global Equity Sub-fund, Link were still targeting mid November 2018 for the launch of the first two funds and it was hoped that agreement would be made within Agenda item 6 for the Tranche 2 funds - UK and European Equities, with approval of the schedule 5 additions to the Fund prospectus by 5th October.

In terms of Transition Manager Appointments for the first two funds (Global Equities), all bids had been received and an initial evaluation had been undertaken, reviewed with officers and final approval was expected within the next week.

In terms of progress to-date, the Joint Committee was advised that:-

- FCA approval was received for the initial funds on the 24th July;
- An Initial Manager engagement day was held on the 5th September with the 3 Global Growth and 3 Global Opportunities Manager in attendance, an additional 4 managers would meet with the Joint Committee later that morning
- Contract negotiations had commenced with Northern Trust for the depositary agreement, as per the report, with the execution copy due for completion later in the week
- Link had reviewed the Administration agreement and fed initial comments back to Northern Trust
- Letters of engagement were now in place for Audit, Legal and Tax advisors.

In terms of Tranche 2 Link had considered UK and European equities, and the fund proposals had been agreed with the investing local authorities of Cardiff and Torfaen, with the schedule 5 additions completed and issued for initial review by the Officers and then approved for submission to the FCA with a view to launch in mid January 2019. It was hoped that Transition Managers would be appointed by the 11th October 2018. Work had also commenced on fixed income proposals which would hopefully be agreed in November 2018 so that work could commence on the third FCA submission.

Reference was made to the key milestones and dates detailed within the report, and clarification was sought regarding the appointment process for the Transition Manager. The Joint Committee S151 Officer advised that the Transitional Manager would require appointment by each individual authority, and each Authority's appointments process would apply.

In response to a question, Ms Jones advised that the appointment of Global Growth and Global Opportunities Managers would be subject to performance on the first tranche, and it was not therefore guaranteed that the same managers would be appointed to the different funds.

Mr Anthony Parnell provided the Committee with the following update on the host authority's responsibilities:-

- Staffing – following a resource issue, the Host Authority was currently undertaking a recruitment process in respect of the Wales Pension

Partnership Officer and it was hoped that an appointment would be made in the next few months.

- In terms of communications, the first reporting pack had now been produced and discussions were ongoing with another Pension Partnership to ascertain if a consistent approach for reporting could be agreed. The Partnership was also required to provide a progress report to the MHCLG (Ministry of Housing, Communities & Local Government) every season, the Autumn report would shortly be drafted in consultation with Hymans Robertson, and following consultation with the Officer Working Group, the progress report would be circulated for signing off via email by the JGC.
- Governance – Officer Working Groups continued to meet on a regular basis, prospectuses had been approved and the Joint Committee arrangements were working well and compared favourably with other similar pension pools. Work on the development of the website was ongoing. Reporting arrangements continued to be developed in line with CIPFA recommendations and Government expectations.

The Chair congratulated the Partnership on its recent success in being highly commended in the Pool of the Year category at the LAPF Investment Awards 2018 held at the Savoy Hotel, London on Thursday 20th September 2018.

The Committee's Section 151 Officer advised that a request had been received from the Minister for Housing, Communities and Local Government to meet with the Chair of the Committee and officers to discuss the Joint Committee's infrastructure potential proposals, and this meeting would take place shortly.

UNANIMOUSLY RESOLVED that the presentation from Link and the host Authority on milestones and progress update be received.

5. EXCLUSION OF THE PUBLIC

UNANIMOUSLY RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following item as the report contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

6. PRESENTATION BY LINK / RUSSELL ON UK AND EUROPEAN EQUITY SUB-FUNDS

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in minute number 5 above, to consider this matter in private, with the public excluded from the meeting on the basis disclosure of the information detailed in the report would include details of the finer detail of investment opportunities which had yet to be negotiated fully or renegotiated and disclosing the presentation would prejudice those negotiations and impact upon the Funds' costs and returns.

The Committee welcomed Peter Hugh Smith - Managing Director - Link Asset Services and Sasha Mandich - Director, Russell Investments to the meeting.

The Committee proceeded to receive a presentation on the structure of the two regional equity funds namely UK and Europe ex-UK, and considered recommendations in respect of those funds.

Members of the Committee were afforded the opportunity of asking questions on the funds, including fund performance, diversification of investment styles, how funding was split between the two sub-funds, fund manager changes/staffing turnover, and the process for investment./withdrawal.

UNANIMOUSLY RESOLVED:-

- 1. That the presentation be noted.**
- 2. to invest in two separate sub funds in order to achieve effective diversification, and to employ five specialist managers per fund, namely:-**
 - UK Equities – Majedie, Lazard Omega, Baillie Gifford, Investec and Liontrust.**
 - Europe ex-UK equities – Blackrock, Pzena, Invesco, SW Mitchell and Liontrust.**
- 3. to reduce trading costs through an ‘enhanced implementation’ approach, which would involve offsetting overlapping manager trades rather than directing every manager to trade separately with their own brokers.**

CHAIR

DATE



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WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

SUBJECT

**PRESENTATION BY LINK AND THE HOST AUTHORITY ON MILESTONES
AND PROGRESS UPDATE**

RECOMMENDATIONS / KEY DECISIONS REQUIRED:

**To receive a presentation from Link and the host authority on milestones
and progress update of the Wales Pension Partnership**

REASONS:

Link and the host authority to provide an update on the milestones and progress
of the Wales Pension Partnership.

Report Author:
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Council**

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**EXECUTIVE SUMMARY
JOINT GOVERNANCE COMMITTEE**

DATE 27 MARCH 2019

**PRESENTATION BY LINK AND THE HOST AUTHORITY ON
MILESTONES AND PROGRESS UPDATE**

BRIEF SUMMARY OF PURPOSE OF REPORT

Link and the host authority to present to the Joint Governance Committee an update on the progress and milestones of the Wales Pension Partnership.

DETAILED REPORT ATTACHED?

YES

IMPLICATIONS

Policy, Crime & Disorder and Equalities NONE	Legal NONE	Finance NONE	Risk Management Issues NONE	Staffing Implications NONE

CONSULTATIONS

Details of any consultations undertaken are to be included here

Section 100D Local Government Act, 1972 – Access to Information List of Background Papers used in the preparation of this report: THESE ARE DETAILED BELOW

Title of Document	File Ref No.	Locations that the papers are available for public inspection/WEBSITE LINK

WPP Joint Governance Committee

Date 27 March 2019

Version 0.1

Key Milestones

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Task	Date	RAG	Comment/Responsible
Reporting Template agreed	31/01/19	G	First monthly reporting pack issued March
Investment Manager Agreements	31/12/18	C	Tranche 1 all complete
Approval of Fund Prospectus	11/06/18	C	
FCA Submission	24/06/18	C	
Global Equity Sub Funds Fund Launch	14/01/19	C	Funds launched on schedule, restructuring of portfolios commenced 24 th January. Handover to underlying managers completed on 6 th & 15 th February
Agree Funds – Tranche 2	25/07/18	C	Two funds agreed UK Equity and European ex UK Equity
Approval of Fund Prospectus	05/10/18	C	
FCA Submission – Tranche 2	18/01/19	C	FCA approval received 22 nd February, agreeing launch date with intended investors
Fund Launch – Tranche 2	TBC	G	
Agree Funds – Tranche 3	27/03/19	G	Agree structure of funds
Approval of Fund Prospectus	May 19	G	
FCA Submission – Tranche 3	June 19	G	
Fund Launch – Tranche 3	TBC	G	

Progress to date

Initial Funds (Global Equity)

- Launch and transition of assets completed over 11th and 14th January
- Restructuring of portfolios commenced 24th January
- Hand over to underlying portfolio managers completed on 6th & 15th February
- Post trade reports issued

Tranche 2 (UK and European Equities)

- FCA approval received 22nd February
- Agreeing launch date for funds with the underlying investors
- Transition proposal shared with pool

Tranche 3 (Fixed Income)

- Final fund structure proposal agreed with Officers
- Initial Investment Manager proposals to be agreed

Next Steps

Page 18

- Tranche 3 agree fund structures – **WPP March 2019**
- Agree approach to transition for tranche 2 – **WPP March 2019**
- Agree future tranches – **WPP April 2019**
- Agree Stock Lending requirements – **WPP March 2019**

Host Authority Update

- Staffing
- Communications
- Governance
- Reporting

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WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

WALES PENSION PARTNERSHIP BUDGET

RECOMMENDATIONS / KEY DECISIONS REQUIRED:

The Joint Governance Committee to:

- note the current budget position for 2018-19
- approve the revised budgets for 2019-2020 and 2020-2021
- approve the budget for 2021-2022.

REASONS:

The host authority to present to the Joint Governance Committee:

- the current budget position for 2018-19
- the revised budgets for 2019-2020 and 2020-2021
- the budget for 2021-2022.

Report Author:
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Designation:
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**EXECUTIVE SUMMARY
JOINT GOVERNANCE COMMITTEE**

DATE 27 MARCH 2019

WALES PENSION PARTNERSHIP BUDGET

BRIEF SUMMARY OF PURPOSE OF REPORT

The host authority to present to the Joint Governance Committee the budget for the Wales Pension Partnership.

The 2018-2019 – 2020-2021 budgets were approved at the 28 March 2018 committee meeting.

This report provides:

- the current budget position for 2018-2019
- the revised budgets for 2019-2020 and 2020-2021
- the budget for 2021-2022.

DETAILED REPORT ATTACHED?

YES

IMPLICATIONS

Policy, Crime & Disorder and Equalities NONE	Legal NONE	Finance YES	Risk Management Issues NONE	Staffing Implications NONE
Policy, Crime & Disorder and Equalities - None				
Legal - None				
Finance - There is a variance of £91k for 18-19 mainly due to staffing underspends and slippage of website development. The Host Authority budgets for 19-20 to 21-22 are £201k, £194k and £199k respectively.				
Risk Management Issues - None				
Staffing Implications - None				

CONSULTATIONS

Details of any consultations undertaken are to be included here

None

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

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Budget	Forecast	Variance	<u>Wales Pension Partnership</u>			Budget	Budget	Budget
2018-19	Actual	2018-19				2019-20	2020-21	2021-22
£	£	£	Notes		Notes	£	£	£
<u>Host Authority Budget</u>								
<u>Financial Services</u>								
10,000	10,000	0				10,000	10,000	10,000
25,000	25,000	0				25,000	25,000	25,000
55,000	43,111	11,889	1	Section 151 officer recharge		57,000	59,000	62,000
40,000	0	40,000	2	Treasury & PIM - Pay, NI and Super	1 FTE	19,000	40,000	42,000
5,000	1,058	3,942		Senior Financial Services Officer - Pay, NI, Super	1 FTE	5,000	5,000	5,000
1,000	550	450		Assistant Accountant - Pay, NI and Super		1,000	1,000	1,000
1,000	0	1,000		Staff Travelling Expenses		1,000	1,000	1,000
30,000	0	30,000	3	Subsistence & Meetings Expenses		33,000	3,000	3,000
10,000	10,000	0		Admin, Office & Operational Consumables		10,000	10,000	10,000
5,000	5,000	0		Website Development and ongoing cost		5,000	5,000	5,000
5,000	1,277	3,723		FMIS/Premises/HR Support		5,000	5,000	5,000
<u>Procurement Services</u>								
Daily Rate @£296								
<u>Democratic Services</u>								
20,000	20,000	0		Audit Fees		20,000	20,000	20,000
<u>Legal Services</u>								
10,000	10,000	0		Translation Services		10,000	10,000	10,000
Daily Rate @£370								
217,000	125,996	91,004	TOTAL			201,000	194,000	199,000
27,125	15,750	11,375	Cost to each fund			25,125	24,250	24,875
<u>Operator & Other Services Budget</u>								
<u>Operator Services Fees</u>								
5,000	0	5,000	Manager Selection			5,000	5,000	5,000
32,000	0	32,000	Attendance at Committee Meetings (£4k)			32,000	32,000	32,000

980,000	676,735	303,265	4	AUM Fees (Link, Russell, NT)	4,441,750	7,207,000	7,207,000
				<u>Reporting Fee</u>			
50,000	0	50,000		For JGC	50,000	50,000	50,000
50,000	0	50,000		For Constituent Authorities	50,000	50,000	50,000
		0		<u>External Consultants</u>			
80,000	314,390	-234,390	5	Investment & Legal Consultants	120,000	120,000	120,000
1,197,000	991,126	205,874		TOTAL	4,698,750	7,464,000	7,464,000

Notes

- 1 Post only part filled during 2018-19
- 2 Vacant Post
- 3 Website Development carried forward to 2019-20 budget.
- 4 {
 - AUM 18-19 - £3.5bn (Global Equities)
 - AUM 19-20 - £8.9bn (Above plus UK & European Equities, Other Regional Equities and Fixed Income)
 - AUM 20-21 - £13bn (Above plus Alternatives)
- 5 Contract to be tendered during 2019-20.



WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

WALES PENSION PARTNERSHIP WORKPLAN 2019-20

RECOMMENDATIONS / KEY DECISIONS REQUIRED:

To approve the Wales Pension Partnership Workplan for 2019-20

REASONS:

A workplan has been prepared for the Wales Pension Partnership (WPP) for the forthcoming year, 2019-20.

Report Author:
Chris Moore

Designation:
Director of Corporate Services

**Carmarthenshire County
Council**

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EXECUTIVE SUMMARY JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

WALES PENSION PARTNERSHIP WORKPLAN 2019-20

BRIEF SUMMARY OF PURPOSE OF REPORT

A WPP workplan has been produced for 2019-20 detailing the key tasks for the forthcoming year in the following key work areas:

- Governance
- Ongoing establishment
- Operator services
- Communications and reporting
- Training and meetings
- Resources, budget and fees

It also indicates:

- who the activities have been assigned to
- who needs to ratify/sign off the individual tasks
- what contractual obligation it forms part of (if any), and
- the timeline for the task completion

This is a working document that will assist the Wales Pension Partnership achieve its overall objectives and goals for the year. It is a transparent document showing who is responsible for each area and the respective timescales.

DETAILED REPORT ATTACHED?	YES
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IMPLICATIONS

Policy, Crime & Disorder and Equalities NONE	Legal NONE	Finance NONE	Risk Management Issues NONE	Staffing Implications NONE

CONSULTATIONS

Details of any consultations undertaken are to be included here

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THESE ARE DETAILED BELOW

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WALES PENSION PARTNERSHIP WORKPLAN 2019-20

WORK AREA	ACTIVITIES DESCRIPTION	Assigned to	Ratified by / sign off	Contractual obligation	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar
Governance	Formulation of objectives and beliefs for Wales Pension Partnership	OWG	JGC					
	Preparation of business plan	Host Authority, OWG	JGC, Administering Authorities	IAA Clause 6.1				
	Development of WPP responsible investment policy	Hymans, OWG	JGC, Administering Authorities					
	Cross reference of voting policies and develop WPP policy	Hymans, OWG	JGC, Administering Authorities					
	Development of WPP policies and procedures: - Training and Competence - Complaints - Breaches and Errors - Conflicts of Interest - Business Continuity Planning - DSAR/FOI - Contract management, co-ordination and liaison with the Operator - Re-balancing policy	OWG, Link	JGC	IAA Clause 20 and Schedule 5				
	Engage with MHCLG over consultation	OWG	JGC					
	Finalise engagement protocols with Operator	Host Authority, Link	JGC					
	Agree and document delegations and decision-making in single source / governance matrix	Host Authority	JGC					
	Measure underlying costs and savings including FX, custody, trading	Host Authority	JGC					
	Explore other opportunities for collaboration e.g. single custodian for non-pool assets	Host Authority	JGC, Administering Authorities					
Ongoing establishment	Launch of Tranche 2 sub-fund - UK and European (ex-UK) equity (currently scheduled for March 19)	Link	Administering Authorities	OA Schedule 4, 1.1				
	Launch of Tranche 3 sub-fund - Fixed Income	Link	Administering Authorities	OA Schedule 4, 1.1				
	Launch of online reporting portal	Link	OWG					
	Development of monthly reporting pack e.g. valuation reports, assets held outwith the pool	OWG, Link	Administering Authorities	OA Schedule 4, 1.7				
	Development of KPI reports (quarterly requirement)	OWG, Link	Host Authority	OA Schedule 4, 1.6				
	Develop plan for tranche 4 onwards (incl fee negotiations)	Link, Russell	JGC	OA Schedule 3, 3				
	Finalise stock lending arrangements with Administering Authorities	OWG	Administering Authorities					
	Appoint transition manager for required transitions and oversee transitions	Link	OWG	OA Schedule 5, 2.5				
	Transition planning and implementation	Transition Manager	OWG, Link					
	Transition oversight following transition exercises including independent audit	Hymans Robertson, Byhiras	OWG					
	Define requirements for illiquid assets and develop other vehicles	OWG	JGC, Administering Authorities	OA Schedule 3, 4				
Operator services	Effective management of sub-contractors e.g. depositary, custodian, Russell	Link	Host Authority	OA Schedule 4, 1.5				
	Provide detailed monitoring and reporting on performance of all underlying Investment Managers and Non-Pool Investment Managers (quarterly requirement)	Link	Host Authority	OA Schedule 5, 2.6				
	Management of ACS and sub-funds	Link	Host Authority	OA Schedule 4, 1.4				
	Agree requirements for cost transparency, and ensure reporting in place	OWG, Link						
	Adherence to WPP policies	Link	Host Authority					
	Annual review of the ACS prospectus	Link	JGC	OA Clause 6				
	Provide monthly reporting pack e.g. valuation reports, assets held outwith the pool	Link	N/A	OA Schedule 4, 1.7				
	Provide KPI reports (quarterly requirement)	Link	Host Authority	OA Schedule 4, 1.6				
	Annual review by WPP as to whether to switch on non-consultative services	OWG	JGC	OA Schedule 6, 1				

WORK AREA	ACTIVITIES DESCRIPTION	Assigned to	Ratified by / sign off	Contractual obligation	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar
	Adherence to insurance requirements (to be expanded)	Link, Lockton	Host Authority	OA Clause 16				
Communications and reporting	Creation of a communications plan	Host Authority	JGC					
	Creation / ongoing maintenance of WPP website	Host Authority	JGC					
	Drafting of communications to internal stakeholders e.g. regular bulletins	Host Authority	N/A					
	Drafting of external communications / press releases	Host Authority	JGC					
	Drafting of the bi-annual update to MHCLG	Host Authority	JGC					
Training and meetings	Development of JGC / OWG training plan	Host Authority, OWG	JGC					
	2 - 3 educational training sessions to the JGC / OWG	Link	N/A	OA Schedule 5, 2.7(a)				
	1 educational training session per year with each Constituent Authority	Link	N/A	OA Schedule 5, 2.7(b)				
	Quarterly review and planning meetings	Host Authority, Link	N/A	OA Schedule 5, 2.8(a)				
	Annual meeting with each individual Constituent Authority	Link	N/A	OA Schedule 5, 2.8(b)				
	Meeting(s) with Investment Managers (to be considered)	Link	N/A					
	Scheduling and facilitation of business planning meeting	Host Authority	N/A					
	Scheduling and production of papers for OWG meetings	Host Authority	N/A	IAA Clause 7.1(d)				
	Scheduling and production of papers for JGC meetings	Host Authority	N/A	IAA Clause 7.1(d)				
Resources, budget and fees	Management of Host Authority resources	Host Authority	OWG	IAA Clause 7.1(a) & 7.1(c)				
	Preparation and monitoring of budget	Host Authority	OWG	IAA Clause 6.1(b)				
	Procurement of oversight advisor for the WPP	OWG	JGC					



WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

DEVELOPMENT OF RESPONSIBLE INVESTMENT POLICY

RECOMMENDATIONS / KEY DECISIONS REQUIRED:

To approve the Principles for the Wales Pension Partnership Responsible Investment Policy

REASONS:

A development of Responsible Investment Policy document has been produced which includes feedback from the recently completed questionnaire and the principles that will be incorporated into the Policy for the Wales Pension Partnership.

If the principles are approved, a Responsible Investment Policy will be prepared and presented to the June JGC meeting for final approval.

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**EXECUTIVE SUMMARY
JOINT GOVERNANCE COMMITTEE**

DATE 27 MARCH 2019

DEVELOPMENT OF RESPONSIBLE INVESTMENT POLICY

BRIEF SUMMARY OF PURPOSE OF REPORT

A Responsible Investment Policy is to be developed for the Wales Pension Partnership.

The development of a Responsible Investment Policy document has been drafted which includes an evaluation of the Questionnaire responses, draft Responsible Investment policy principles and comparison of voting policies.

These principles will be used to draft the Policy for the Wales Pension Partnership.

DETAILED REPORT ATTACHED?	YES
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IMPLICATIONS

Policy, Crime & Disorder and Equalities	Legal	Finance	Risk Management Issues	Staffing Implications
YES	NONE	NONE	NONE	NONE
Policy A Responsible Investment policy will be developed which will become a formal document for the Wales Pension Partnership.				

CONSULTATIONS

Details of any consultations undertaken are to be included here

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THESE ARE DETAILED BELOW

Title of Document	File Ref No.	Locations that the papers are available for public inspection/WEBSITE LINK



Development of Responsible Investment policy

Wales Pension Partnership

William Marshall, Partner

27 March 2019

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Agenda

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Feedback from questionnaire

Draft RI policy principles

Comparison of voting policies

Next steps

Questionnaire feedback

Questionnaire: Overview

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- Questionnaire was issued to members of the OWG and JGC.
- Purpose of the questionnaire was to try and gain an understanding of views and positioning on RI issues.
- 15 responses were received, split broadly evenly between JGC and OWG members.
- Full responses are included as Appendix 1.
- The following slides summarise the responses received and areas of consensus/disagreement.
- We have translated these findings into an initial draft policy and suggested actions for the Pool.

Pool positioning

- Broad agreement that
 - The Pool should demonstrate best practices on RI [25] and provide leadership in helping funds address climate risks [15]
 - The Pool needs to exceed minimum regulatory requirements [16]
 - Collaboration will be positively received by Funds, but this need not be with other LGPS funds or Pools, i.e. the Pool should seek the most appropriate partner [20, 24]
- Strong agreement that:
 - Engagement is preferred to divestment [19]
- No clear agreement on:
 - Enforcing an exclusionary policy across Pool fund offerings [10, 14]

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Note that the numbers in [] represent the relevant questions in the questionnaire. See Appendix 1 for more detail

Obligations & understanding

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Strong agreement that:

- The pool has a requirement to ensure that RI issues are addressed, rather than relying on the managers to do this [17, 23, 29]
 - The Pool should ensure that managers directly integrate ESG considerations into processes [23]
-
- Broad agreement that RI issues are understood at a Fund level but lesser agreement that this is the same at a Pool level
 - Clarity on the role of the Pool is therefore necessary [1, 2]
-
- No agreement that:
 - The managers are better placed to consider ESG factors in investment decisions [21]
-
- Broad expectation that the Pool & Funds should be able to turn to its service providers for support on RI matters [22]

Managers and Mandate offerings

- Consensus that:
 - Link and Russell have an obligation to the Pool [27]
- No clear agreement on:
 - Prioritising exposure to specialist ESG managers [9]
 - Providing exposure to impact strategies [11]
- Strong agreement that companies with sustainable business practices will outperform [18]
 - Consideration for mandate offerings or monitoring?

Voting policy

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- Broad agreement that:
 - Voting policy should be for the Pool to determine [12]
- No consensus that:
 - Managers should be permitted to adopt different positions in voting on the same resolution [8]

Disclosure/Monitoring

- Strong agreement that:
 - Reporting on ESG factors and financial performance is needed [3]
 - Managers must be required to disclose ESG information on funds [4]
 - Managers credentials should be reassessed annually [7, 26]
 - Funds should articulate their monitoring requirements to the Pool and the Pool should ensure they are met [28]
 - The Pool should disclose its own RI activities [5]



Draft principles to be
incorporated into RI policy

Recap: Issues to include in your policy

Area	Issues to cover
Policy/Governance	Beliefs Education Divestment Fund engagement Approach to review of policy Delegations
Strategy/Structure	Climate risk Approach to different asset classes
Implementation	Approach to manager selection Fees/costs and transparency
Stewardship	Voting policies and approach to voting Engagement with companies Collaboration Litigation
Monitoring	Information/reporting requirements of third parties Approach to reviewing adherence to policy Disclosure/transparency

Recap: Goals in the development of RI policy for WPP

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For the development of a RI policy, the following criteria are suggested:

- **Clear** – Policy should be unambiguous, particularly under external scrutiny.
- **Proportionate** – Policy should reflect where the Funds and WPP are at in their RI journey. There is no need to try to become a Leader overnight.
- **Consistent** – Policy should reflect the decisions that have already be taken both within WPP and, as far as possible, the Funds.
- **Implementable** – Policy should be able to be put into practice using the structure and resources of the Pool.
- **Reflective of best practice** – Policy should consider current regulatory and best practice requirements but be subject to review and change in future.

Draft RI Policy: Ambition/objectives

- WPP has an ambition to demonstrate leadership on RI practices in managing assets for and on behalf of its member Funds
 - Should clearly define what this ambition looks like and the timeframe over which it is targeted
 - This has a potential impact on resourcing requirements for the Pool and commitments need to be balanced against resources.
- Pool to develop a RI business plan to tie into policy implementation
 - Assessment of progress against the business plan overseen by the JGC and OWG
- Annual reassessment of Fund needs and requirements with regard to RI to inform policy evolution
 - Policy to be guided by member Funds and the pace at which they want to be advanced

Key themes to be evident in the policy are integration, stewardship and disclosure

Draft RI Policy: Beliefs

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The following beliefs are inferred from the responses to the questionnaires:

- The RI behaviours we want to see demonstrated by all our stakeholders must be led by the Pool.
- Integration of ESG factors into investment processes is a prerequisite for any strategy given the potential for financial loss.
- We are most effective as an investor, engaging for change from within, than a campaigner, lobbying for change from outside.
- Our impact on corporate behaviours will be greatest when we speak with one voice.
- Effective oversight of RI practices requires clear disclosure of comprehensive data.

Draft RI Policy: Strategy

- Pool will aim to launch products that meet Fund requirements
 - Requirements for impact/sustainability themed strategies to be considered and prioritised on demand
 - Early goal to identify and agree common ground among funds to demonstrate leadership?
 - To what extent should sustainability be emphasised in future strategy launches?
- Pool will support Funds in developing their approach to the management of climate related risks
 - Pool to facilitate the measurement of carbon risk exposures to allow Funds to set benchmarks
 - Consult further on the need to develop a Pool specific climate risk policy

Draft RI Policy: Integration

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Requirement on Russell/Link to demonstrate best in class managers appointed to the Pool

- Needs to be beyond just reference to PRI ratings
 - Integration of ESG factors into processes to be demonstrated and evidenced
 - Assessment framework to be agreed
-
- Ongoing engagement with Russell/Link on process to be followed to provide transparency to Funds

Draft RI Policy: Stewardship

- Pool to work towards the adoption of a single voting policy to be applied across all equity holdings
 - Agreement on voting standards to be employed
 - Use PLSA policy as a basis, or an alternative
 - Can evolve to consider more specific issues in due course
- Pool to explore the use of a sole agent for implementation of voting policy:
 - Need for further discussion on who this could be and how this could be facilitated
 - Practical considerations on implementation to be explored
 - Combine with reporting requirements on voting to ensure that information is made available as needed
- Pool to provide quarterly reporting to Funds on the execution of voting policy
- Engagement to be delegated to individual managers in the first instance, but work towards a common approach if possible
 - Support for LAPFF can provide some commonality/continuity
 - Could be considered in conjunction with voting agent
 - How will successes be measured and reported?

Draft RI Policy: Monitoring

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Managers will be required to report on the ESG characteristics of their portfolios on a quarterly basis:

- Characteristics to be determined with input from Funds
 - Consistency in metrics across managers to be ensured
 - Ability to measure impact to be included?
- Managers RI credentials should be (re)assessed on an annual basis.
 - Requirement for an annual “sustainability report” from Link/Russell – content to be agreed
 - Need to include more qualitative factors are defined and reported
 - Ensure that reporting is evidence based
- Ongoing scrutiny by Pool
 - Demonstration of ongoing commitment to RI practices and challenge to be considered
 - How will issues be flagged? Agree approach with Russell/Link

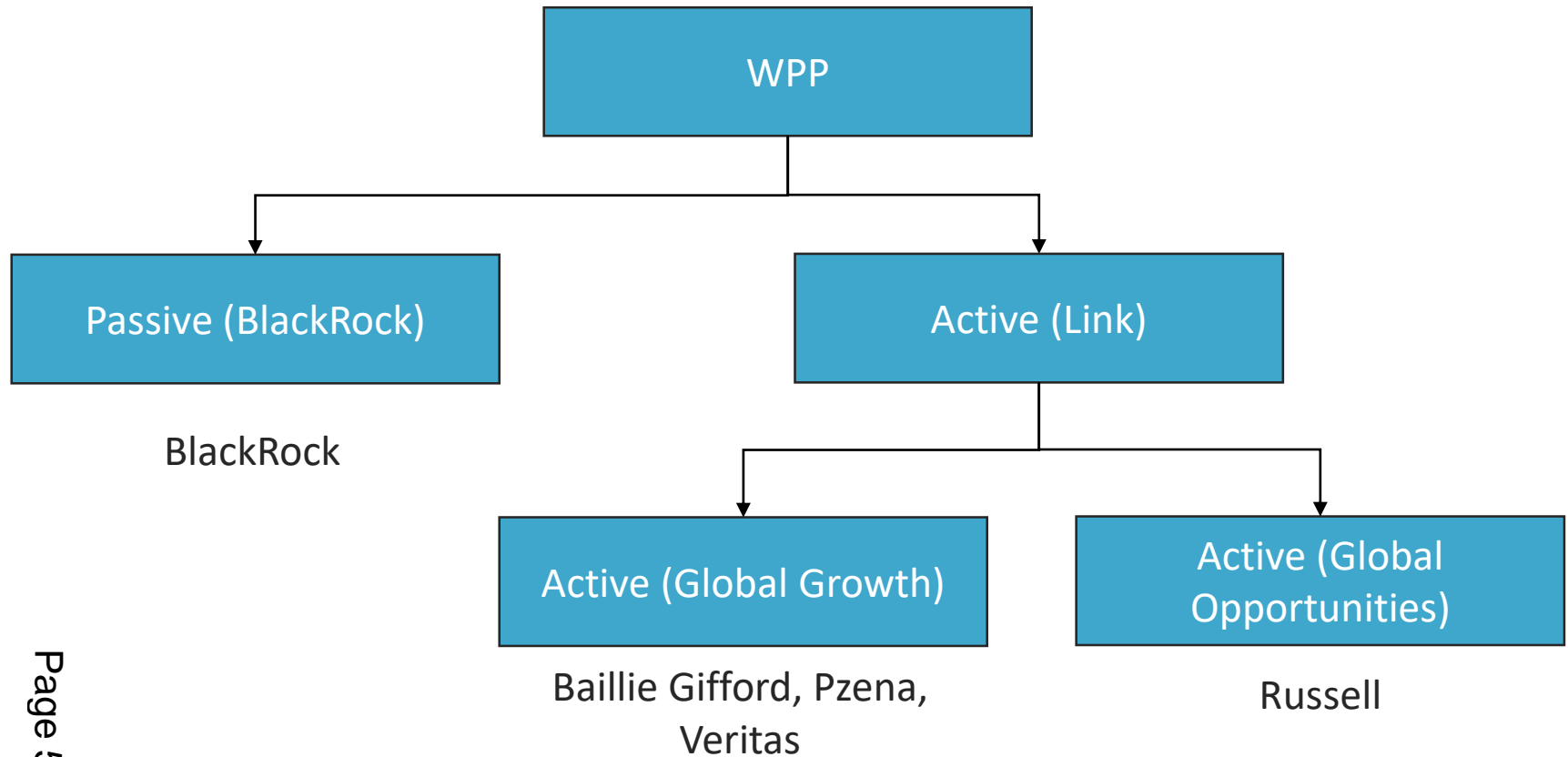
Draft RI Policy: Other issues

- Pool to annually assess compliance with RI policy:
 - Public disclosure of policy and compliance report
 - Annual review of policy to ensure that desire for leadership is advanced
- Pool support for external bodies:
 - LAPFF – appropriate given LGPS focus and membership amongst Funds
 - UK Stewardship Code – consider following consultation
 - PRI – consider in due course but weigh against reporting obligations
- Education:
 - Pool commitment to support ongoing RI education amongst Funds.
 - Facilitate an annual RI training day for Funds?
 - Ability to leverage shared knowledge and gain consistency in understanding

Requirements for disclosure of costs in line with SAB Code of Transparency

Voting policy

Recap: Structure of voting policy application



Comparison of selected policies (1)

Provider	Remuneration Policy
PLSA	Vote against remuneration policy if policy fails to meet PLSA principles Vote against Chair of remuneration committee/Chair of board if engagement fails to improve policy
BlackRock	Has a detailed voting guidelines and beliefs and generally support the PLSA principles
Russell	Vote against proposals to approve remuneration policies or programs if the new schemes allow for retesting of performance criteria over extended time period if the original performance criteria were not met during the initial time period.
Link	Vote against: <ul style="list-style-type: none">• where the remuneration structure does not permit participation across the workforce.• where there is a no capital commitment on the part of executive participants.• where rewards are not based on performance targets, or where performance targets do not reflect performance relative to the company's competitors, rather than general market factors.• where the period over which performance is assessed is less than 5 years.

Conclusion: Some consensus on approach, but different criteria are set out in policies and guidance which could be subject to differing interpretation.

Comparison of selected policies (2)

Provider	Board diversity
PLSA	Vote against R&A if diversity statement not disclosed/unsatisfactory Vote against chair/Chair of nomination committee if diversity not being properly considered by Board or insufficient progress made
BlackRock	Supports board diversity; Will vote against nomination of chair/directors if they believe the company has not adequately accounted for diversity at board level
Russell	Supports Board Diversity
Link	<ul style="list-style-type: none">• A vote against the Report and Accounts should be considered if a diversity statement is not included or is unsatisfactory.• If there is no clear evidence that diversity is being considered by the board then a vote against the Chair or Chair of the Nominations Committee should be considered.

Page 59
Conclusion: Reasonable consensus on approach – PLSA and Link policies are aligned. Definition of “unsatisfactory” is open to interpretation. Differences in whether votes are cast against Report/Accounts or Chair.

Comparison of selected policies (3)

Provider	Sustainability
PLSA	<p>Vote against R&A or the re-election of the Chair where key stakeholder relationships are being neglected:</p> <p>Vote against the re-election of the Chair or other key directors if after attempts by shareholders to engage on Climate change, the company fails to provide a detailed risk assessment and response to the effect of climate change on their business, and incorporate appropriate expertise on the board</p>
BlackRock	<p>Generally supportive: Will vote against re-election of directors deemed responsible for realised harm to shareholders' interests in relation to social and environmental issues.</p> <p>Or will vote in favour of a shareholder proposal, where there seems to be either a significant potential threat or realised harm to shareholders' interests caused by poor management of S&E matters.</p>
Russell	Vote against proposals where environmental and social issues are at risk of negatively impacting shareholder value
Link	Vote against Annual report, where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.

Conclusion: No clear consensus on approach. Votes may be cast against the Accounts, directors or in favour of shareholder proposals. Disclosure and potential negative impact on value are themes which arise

Considerations

- Adopting an industry standard may offer a sensible first step and not be subject to any manager specific policies. Also provides alignment with other investors.
- Could require a Comply or Explain approach in first instance to identify differences that may arise whilst working towards implementation of a standard policy.
- Recognise also that policies are updated periodically. Following a single standard ensures consistency over time.
- Pool could consider issue specific variations to policy in time
- Could LAPFF voting guidance also be reflected in the approach adopted?

Next steps

Next steps

- Discussion on issues raised for draft RI policy. Any red flags?
- Write up draft RI policy for consideration by OWG on 11 April
 - Circulate draft policy to Funds for consultation following agreement by OWG
 - Final RI policy to be presented and agreed by JGC at June meeting
- Arrange meetings with Link, Russell and BlackRock to explore requirements around voting and monitoring
- Draft business plan to determine actions over next 12 months to implement draft RI policy
- Consider proposals to support collaboration with LAPFF and sign the FRC UK Stewardship Code (following consultation)
- Consider potential budget/training/resource implications of business plan

Appendix 1

Questionnaire responses

Questionnaire scores (1)

	Disagree	Neutral	Agree
1. The Committee has a good understanding about the nature of and importance of responsible investment issues as they affect their own Fund.	0	5	10
2. The Committee has a good understanding about the nature of and importance of responsible investment issues as they affect the Pool.	2	5	8
3. Greater reporting on ESG factors as well as financial performance will better allow the Committee to fulfil its responsibilities	0	0	15
4. The Pool should require a minimum level of disclosure from its investment managers on ESG risks	1	0	14
5. The Pool should publicly disclose its responsible investment activity to all stakeholders.	0	3	12
6. An investment strategy that directly or indirectly integrates the consideration of ESG factors may underperform other common (index tracking) strategies in the short-term and a sufficiently long investment horizon should therefore be adopted when judging the success of such strategies.	1	2	12
7. Investment managers can demonstrate their commitment to responsible investment by being signatories to the Principles for Responsible Investment and UK Stewardship Code.	0	2	13
8. It is acceptable for the Pools investment managers to adopt different positions when voting on the same company resolution.	3	8	4
9. The Pool should prioritise providing exposure to specialist ESG managers and mandates.	3	8	4
10. It is appropriate for the Pool to restrict exposure to assets which are considered to have a detrimental impact on long-term environmental or social sustainability.	4	4	7
11. The Pool should provide exposure to investment strategies which deliver a positive social or environmental outcome, even if it means achieving a lower return.	4	7	4
12. The Pool, rather than the managers, should be responsible for framing and implementing a suitable voting policy in relation to shares owned on behalf of the Funds.	0	4	11
13. Climate change is the most significant long term financial risk to Fund outcomes.	2	8	5
14. It would be appropriate for the Pool to enforce an agreed exclusionary policy across all its underlying strategies.	5	4	6
15. The Pool should provide leadership in helping Funds address the potential risks associated with climate change	2	3	10

Questionnaire scores (2)

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	Disagree	Neutral	Agree
16. When it comes to responsible investment, the Pool only needs to ensure that it and its member funds meet minimum regulatory requirements.	9	5	1
17. The obligation to address responsible investment issues within the Pool lies primarily with Link and Russell	7	6	2
18. Over the longer term, companies that demonstrate more sustainable business practices are expected to outperform companies which ignore sustainability issues	0	2	13
19. Company engagement on specific ESG risks (such as climate change and executive pay), rather than disinvestment, is a more effective way of creating change and supporting shareholder value	0	3	12
20. Collaboration with others (for example the IIGCC or Climate Action 100+) on ESG-related issues will have a positive impact for the Pool and its members	0	4	11
21. Investment managers are better placed to consider ESG factors in investment decisions than the Pool or its member Funds.	2	8	5
22. The Pool and its service providers should be able to provide expertise and guidance to Funds on responsible investment matters.	2	3	10
23. There is a clear obligation on the Pool to ensure that all investment managers integrate the consideration of financially material ESG issues into their investment processes.	0	1	14
24. Collaboration with other LGPS pools, including collaboration through LAPFF, on responsible investment issues should be considered before other forms of collaboration	1	7	7
25. The Pool should exemplify best practice on all responsible investment matters.	1	0	14
26. Investment managers responsible investment credentials should be (re)assessed at least every year.	0	4	11
27. Link and Russell have a clear obligation to keep the Pool and its member Funds updated on responsible investment issues.	0	0	15
28. Funds should clearly articulate what their reporting needs are in respect to responsible investment issues and the Pool should take all steps needed to meet these requirements.	0	2	13
29. Ultimate responsibility for ensuring that Pool's responsible investment policies are adhered to lies with the Committee.	0	1	14



Appendix 2

Current Fund positions

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Summary of the Funds' positions

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Fund	Bespoke RI Policy	LAPFF member	PRI signatory	UK SC signatory (3)	Investment Beliefs (4)	Voting	Explicit policy on Climate risk
Fund 1	✓	✓	✗	✗	✓	Delegated to managers	✓
Fund 2	✗	✓	✗	✗	Note 4	Delegated to managers	✗
Fund 3	Note 1	✓	✗	✗	✓	Delegated to managers	✗
Fund 4	✗	✓	✗	✗	✓	Delegated to managers	✗
Fund 5	✓	✓	✗	✓	✓	Delegated to managers	✗
Fund 6	Note 2	✓	✗	✗	Note 4	Delegated to managers	✓
Fund 7	✗	✓	✗	✗	Note 4	Delegated to managers	✗
Fund 8	Note 1	✓	✗	✓	✓	Delegated to managers	✗

1. Policy currently being drafted. 2. Fund has a RI statement on Climate Change in place. 3. All funds support the principles of the codes and expect their managers to be signatories. 4. Some Funds may have documented investment beliefs but these have not been made publically available.

Thank you

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WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

LINK ENGAGEMENT PROTOCOL

RECOMMENDATIONS / KEY DECISIONS REQUIRED:

To approve Link's Engagement Protocol with the Wales Pension Partnership.

REASONS:

Link and the Host Authority have developed an Engagement Protocol document.

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**EXECUTIVE SUMMARY
JOINT GOVERNANCE COMMITTEE**

DATE 27 MARCH 2019

LINK ENGAGEMENT PROTOCOL

BRIEF SUMMARY OF PURPOSE OF REPORT

Link and the Host Authority have developed an Engagement Protocol document, divided into five main areas of engagement:

- Strategic Relationship Review
- JGC engagement
- OWG engagement
- Annual Shareholder Day
- Individual Pension Fund Committee meetings

This forms part of the overall Governance structure of the Pool.

DETAILED REPORT ATTACHED?	YES
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IMPLICATIONS

Policy, Crime & Disorder and Equalities NONE	Legal NONE	Finance NONE	Risk Management Issues NONE	Staffing Implications NONE

CONSULTATIONS

Details of any consultations undertaken are to be included here

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THESE ARE DETAILED BELOW

Title of Document	File Ref No.	Locations that the papers are available for public inspection/WEBSITE LINK

Link Engagement Protocol

Business as Usual

Strategic Relationship Review	Frequency	Objective
	<ul style="list-style-type: none"> Bi-annual 	<ul style="list-style-type: none"> Ensure strategic alignment between Host Authority and Link
WPP Attendees <ul style="list-style-type: none"> Chris Moore Anthony Parnell Two Section 151 / Deputy Section 151 officers 		Link Attendees <ul style="list-style-type: none"> Peter Hugh Smith, Managing Director Karl Midl, Director, Product, Change and Relationship Management Duncan Lowman, Head of Relationship Management
JGC Engagement	Frequency	Objective
	<ul style="list-style-type: none"> Quarterly 	<ul style="list-style-type: none"> Engage with JGC on pertinent matters and strategic deliverables
WPP Attendees <ul style="list-style-type: none"> Joint Governance Committee (JGC) 		Link Attendees <ul style="list-style-type: none"> Peter Hugh Smith, Managing Director / Karl Midl, Director, Product, Change and Relationship Management / Duncan Lowman, Head of Relationship Management (2 attending) Eamonn Gough, Senior Relationship Manager
OWG Engagement	Frequency	Objective
	<ul style="list-style-type: none"> Every 2 Months 	<ul style="list-style-type: none"> Identify and deliver on opportunities to improve and expand the relationship Provide update on open projects or issues Monthly KPI Review (Data supplied monthly)
WPP Attendees <ul style="list-style-type: none"> Officers Working Group (OWG) 		Link Attendees <ul style="list-style-type: none"> Eamonn Gough, Senior Relationship Manager Duncan Lowman, Head of Relationship Management Ada Wabara, Relationship Manager Sheetal Shetty, Client Service Manager Ad-hoc Link attendance from functional departments: Tax, Compliance, Product, etc. Investment Manager (ad-hoc if required for operational issues)

Note: The OWG Engagement and Monthly KPI meetings may be conducted remotely and/or amalgamated where required.

Link Engagement Protocol continued...

Business as Usual

Annual Shareholder Day	Frequency	Objective
<ul style="list-style-type: none"> Open to all involved parties 	<ul style="list-style-type: none"> Annual 	<ul style="list-style-type: none"> Open day for presentations on strategy and performance (with IM) Link Client Team Northern Trust Russell Investments and/or other consultants (e.g. Hymans, bFinance) Investment Managers
Pension Fund Committees		Objective
<ul style="list-style-type: none"> Individual Pension Fund Committee meetings 	<ul style="list-style-type: none"> Annual 	<ul style="list-style-type: none"> General update on the ACS and planned initiatives Eamonn Gough, Senior Relationship Manager Ada Wabara, Relationship Manager Duncan Lowman, Head of Relationship Management Russell Investments



WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

MHCLG CONSULTATION ON DRAFT STATUTORY GUIDANCE ON ASSET POOLING IN THE LGPS

RECOMMENDATIONS / KEY DECISIONS REQUIRED:

To approve the pool's response to the MHCLG consultation

REASONS:

The MHCLG consultation on draft statutory guidance on asset pooling in the LGPS closes on Thursday 28th March 2019 and a response has been drafted on behalf of the Wales Pension Partnership.

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EXECUTIVE SUMMARY JOINT GOVERNANCE COMMITTEE

DATE 27 MARCH 2019

MHCLG CONSULTATION ON DRAFT STATUTORY GUIDANCE ON ASSET POOLING IN THE LGPS

BRIEF SUMMARY OF PURPOSE OF REPORT

MHCLG have issued the consultation on draft statutory guidance on asset pooling in the LGPS to ensure the eight asset pools across England and Wales have guidance on:

- Definitions
- Structure and Scale
- Governance
- Transition of assets to the Pool
- Making new investments outside the Pool
- Infrastructure investment
- Reporting

The consultation closes on Thursday 28th March 2019 and a response has been drafted on behalf of the Wales Pension Partnership.

DETAILED REPORT ATTACHED?

YES

IMPLICATIONS

Policy, Crime & Disorder and Equalities NONE	Legal YES	Finance NONE	Risk Management Issues NONE	Staffing Implications NONE
Legal Statutory guidance will be issued by MHCLG in due course.				

CONSULTATIONS

Consultation with all 8 Welsh funds

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THESE ARE DETAILED BELOW

Title of Document	File Ref No.	Locations that the papers are available for public inspection/WEBSITE LINK

Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

- 1 Introduction**
- 2 Definitions**
- 3 Structure and scale**
- 4 Governance**
- 5 Transition of assets to the pool**
- 6 Making new investments outside the pool**
- 7 Infrastructure investment**
- 8 Reporting**

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance*, issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

‘Pool’ the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool

‘Pool member’ an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance

‘Pool governance body’ the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)

‘Pool company’ the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members

‘Pool fund’ a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)

‘Pool vehicle’ an investment vehicle (including pool funds) made available to pool members by a regulated pool company

‘Pooled asset’ an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle

‘Retained asset’ an existing investment retained by a pool member during the transition period

‘Local asset’ a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy*.

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
 - asset transition during the reporting year
 - transition plans for local assets
 - pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
 - ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report*.

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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Local Government Pension Scheme - Statutory guidance on asset pooling

Introduction

The 8 LGPS Administering Authorities of the Wales Pension Partnership (WPP) are pleased to be able to provide this response to the Government's consultation on revised LGPS pooling guidance. The Authorities hope that the Government finds it helpful to receive a single consolidated response from WPP on the key points it has identified from the consultation, which further underlines WPP's effective partnership approach.

We welcome the intention to set out an up to date list of requirements on a statutory basis, to establish common terminology and to clarify the position on questions raised by funds and pools.

Structure and definitions

The Government should ensure that the guidance takes account of the variety of pool operating models, as it currently appears to be largely written for the circumstance where 'pool companies' are wholly owned by the pool members, rather than the 'pool company' being a third party awarded a contract by the 'pool members'. Paragraph 3.2 correctly states that 'pool members' may appoint more than one pool company. The guidance should recognise more clearly that multiple 'pool companies' may be appointed to provide 'pooled vehicles/funds' to the 'pool members' and to provide the investment management of those assets. This could include passive investments through life funds, or infrastructure and other illiquid investments. This is no different to the provision of internal investment management by wholly owned 'pool companies'.

WPP feels that MHCLG needs to reconsider its definition of pooling to ensure consistency and any undue misunderstanding. WPP believes that MHCLG has correctly referenced CIPFA's definition of 'pooled assets' (key sections have been underlined) *'those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control'*. However this is not consistent with the definition in the draft guidance *'an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle'*.

As an example MHCLG is aware that the WPP authorities have let contracts to BlackRock for the management of WPP passive investments, which have saved at least £2m per annum, and for which WPP have been complimented many times by the Minister. We have therefore assumed that the Government would want to treat these savings as a pool saving. The decision on the award of these contracts was made by the WPP and the ongoing management of the contract and investments will be under the pool's governance, not individual authorities, thereby meeting CIPFA's definition, and as such will be reported as a 'pool asset', which should be reflected in the guidance.

Active and passive investments

The WPP authorities are pleased that the guidance continues to reflect that strategic asset allocation remains the responsibility of individual administering authorities. As such the decision to invest in active or passive investments will be determined by each administering authority based on their individual assessment of the suitability of the investments and approach to risk [Regulation 7(2) (b & c)] in their Investment Strategy Statement. The effectiveness of both active and passive investment is already being closely monitored by each authority as part of the ongoing management of their pension fund.

The decision to invest in either active or passive investments is not a pooling issue and therefore paragraph 3.6 should be removed from the guidance.

However, if this section is to remain in the guidance, it is important that any assessment of performance takes into account the level of risk being taken to achieve this performance.

The lack of reference to risk is a notable omission in the draft guidance.

Local Pension Boards

Every administering authority established a local pension board under the provisions of Section 3 of the Public Service Pensions, England and Wales The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015. It is responsible for **assisting the administering authority** and performs an oversight role, to

- Secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme and any other connected scheme, and any requirements imposed by the Pensions Regulator in relation to the Scheme and
- Ensure the effective and efficient governance and administration of the Scheme.

We therefore feel that reference to the Board should be removed from the guidance as it is not related to pooling.

Value for money and holding assets outside of the pool

The WPP funds are disappointed that the original pooling criteria of 'value for money' does not continue to feature in the guidance. The guidance correctly identifies that *'Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers... [and] have legal responsibilities for the prudent and effective stewardship of LGPS funds'*. While the guidance states that *'LGPS benefits are not dependent on their [local pension committees'] stewardship'* critically the cost of those benefits to scheme members are, therefore the value for money of each funds' and pools' investment arrangements remain important and a key part of the discharge of pension committees' fiduciary duty, and should remain a fundamental pooling criteria.

Paragraph 4.4 of the guidance correctly refers to pension committees and pool governance committees taking a long-term view of the costs and benefits of pooling. However in going further and stating that there should be consideration 'of the benefits across the pool and across the scheme as a whole', it sets inappropriate and unworkable expectations. Individual pension committees have a fiduciary responsibility to their own scheme members and cannot make decisions that

disadvantage their own fund, even if it would benefit others. There is no mechanism for pools to quantify benefits to the scheme as a whole, and this is an unreasonable basis for pool decision making. The section of paragraph 4.4 quoted above should be removed unless the Government can provide a legal opinion that shows Administering Authorities fiduciary duty must extend external to their pool and the scheme as a whole.

Since the original pooling guidance in 2015 WPP's significant work around pooling has identified that there are net savings that can be achieved through pooling in investment managers fees and costs. This has been reported to the Government and been received positively. The WPP has also reported that it has a programme of work to implement pooling and achieve these savings, which is already well underway.

Nonetheless the work to date has also highlighted that in a number of instances individual authorities have already achieved very competitive fees, and in some instances little to no further saving can be achieved through pooling, which is recognised in the guidance in paragraph 5.4. However, the guidance should acknowledge that despite regular review, the on-going benefits of pooling over the long-term may never outweigh the costs and assets may remain outside of the pool indefinitely. As such the heading for paragraphs 5.4 and 5.5 should have word 'temporary' removed and the definition of a 'retained asset' should be amended to 'an existing investment allocation retained by a pool member'. Further clarification on the retention of assets outside the pool must be included, in particular with regards to direct property investments. Unlike other asset classes, direct property will not 'mature' (as described in paragraph 5.4) and ultimately become available for investment in a subsequent pooled solution. In addition to maximise investment returns and for efficient portfolio management new direct property investment will continue to be made within existing strategic allocations, whilst new allocations will be made within the pool when suitable options are available.

Making new investments outside the pool

We welcome 6.2 investments in local initiatives. The WPP sees these as important potential investment opportunities which are currently being considered.

Reporting

As stated earlier in this response the Government must ensure that this guidance reflects both pooling models where the 'pool company' is a third-party provider or wholly owned by the pool members. As such paragraph 8.8 should either be deleted or clarified that it only applies to wholly owned pool companies. Third-party pool companies will not produce annual reports that are relevant to LGPS investment pooling.

The preceding paragraphs of section 8 are correctly worded. WPP's contract with the operator ensures that it reports to the pool members in line with the SAB Code of Cost Transparency (paragraph 8.7), which will be the basis of the administering authorities annual reports produced in accordance with CIPFA's guidance, which can be collated by the SAB (paragraph 8.6).

Responsible investment

The consultation is notably light on wording in this area. Given the importance of this subject, we believe there is scope for wording on this subject, and the potential implications of pooling, to be added to the guidance.

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Agenda Item 11

By virtue of paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

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