

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **26th NOVEMBER 2015**

REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**

SUBJECT: **COLLABORATIVE WORKING IN WALES**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members with the on-going collaborative work across the 8 Welsh Pension Funds.

2.00 BACKGROUND

2.01 Mercer were appointed to produce a report for the Society of Welsh Treasurer's (Pension Sub-Group) on a business case for a common investment approach. All Pension Committees/Panels in Wales received the attached summary report during the September meeting cycle.

2.02 With reference to the previous agenda item on the national pooling of investments, it is hoped that these recommendations, based on independent expert advice, will satisfy the Government's requirements and also demonstrates to all stakeholders in Wales that this is the best way forward.

3.00 CONSIDERATIONS

A Summary of the Wales Collaboration Report

3.01 The principle recommendation in the report is for the 8 funds in Wales to 'rent' a collective investment vehicle (CIV) from a third party provider. A build option, like the London CIV, was considered but would be more expensive to set up and take considerable time to implement.

3.02 The types of investments in the vehicle will grow over time, starting with active equity. The analysis by Mercer shows that these mandates offer the greatest saving and potential for improved net of fee investment returns.

3.03 A governance structure will be developed to include both officers and elected members from across the 8 funds. Although there will be no compulsion to participate each fund would now need to consider their own position in terms of UK Government's requirements to pool investments, which has arisen since the Mercer work was completed.

3.04 In addition, Mercer advised that by procuring one passive investment manager for the 8 Welsh funds significant fee savings could be achieved and this could be implemented ahead of the CIV.

3.05 A third party should be appointed to assist with the procurement process.

Current Position & Timetable

- 3.06 All 8 Committees/Panels have agreed with the recommendations of the Mercer report.
- 3.07 The Gwynedd Fund has led the procurement of an adviser to assist with the implementation of the CIV. An appointment should be made in December 2015. The CIV should be in place by the end of 2016/17, or soon after.
- 3.08 The Clwyd Fund has led the procurement for an adviser to assist with the selection of one passive investment manager. This investment of circa £3bn will account for approximately one quarter of the funds invested by the 8 funds. The joint procurement of the passive manager should be completed this financial year.
- 3.09 With the national developments in mind, the Society of Welsh Treasurer's (Pension Sub-Group) has written to DCLG to outline the above position.

Clwyd Pension Fund Implications

- 3.10 The following paragraphs outline the practical implications for the Clwyd Fund of the Wales CIV, joint procurement for passive investments or a mandated Government pooling approach. The table below summarises our investment strategy.

Asset Class	£000s	%	£000s	%
Active Equity	238,000	17		
Multi Asset Credit	210,000	15		
Tactical Asset Allocation	266,000	19	714,000	51
Alternative Assets	294,000	21		
Liability Matching	266,000	19		
Managed Account	126,000	9	686,000	49

- 3.11 51% of our strategy would be relatively straightforward to 'pool' i.e, active equities, multi asset credit and tactical allocations. It is probable that it could be delivered at a lower cost due to scale. Whether it would improve investment performance is a matter for debate. Of course the Fund is likely to lose direct control of the fund managers chosen to deliver these strategies and there will be 'one off' transition costs.
- 3.12 The remainder of our strategy would be more difficult to pool. The 21% in property, private equity and infrastructure are in long term limited partnerships. They could be sold on the secondary market at a discount but this would not make financial sense. However, future commitments could be made collaboratively if such models are developed.

- 3.13 19% is invested in assets to match the Fund's liabilities, which is fund specific and hence not suitable for pooling. This would require a change in strategy, loss of interest rate and inflation protection, as well as being costly to exit, estimated to be about £3m. In terms of the passive fund manager joint procurement, the Fund has 19% exposure to passive regional developed market equities via a total return swaps within this mandate and there is potential for some of this equity exposure to be transferred to the new passive manager.
- 3.14 9% of managed futures and hedge fund exposure is already invested in a collaborative structure with Cornwall which is open to other LGPS investors.
- 3.15 In conclusion, the investment strategy of the Clwyd Fund provides more practical difficulties and transition costs than many other funds and these risks will require careful consideration going forward, where any local discretion remains.

4.00 RECOMMENDATIONS

- 4.01 That Committee Members note the report and support developments.

5.00 FINANCIAL IMPLICATIONS

- 5.01 The advisor fees will be shared between the 8 funds.

6.00 ANTIPOVERTY IMPACT

- 6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

- 7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

- 8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

- 9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

- 10.01 With the other 7 pension funds in Wales.

11.00 CONSULTATION UNDERTAKEN

- 11.01 With the other 7 pension funds in Wales.

12.00 APPENDICES

- 12.01 Mercer Report – All Wales Collaboration

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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