

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Tuesday, 24 May 2016
<b>Report Subject</b>	Pooling Investments In Wales
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

The purpose of this report is to provide a further update on this on-going project now the UK Government have agreed that work on a Wales Pool can continue despite not meeting the size criteria.

The next milestone is a detailed submission by 15<sup>th</sup> July 2016 from the Wales Pool. Much work is required to be undertaken and decisions to be made both as individual funds and collectively as 8 funds. Hymans Robertson, advisor and project manager for the 8 funds, have documented a project overview to assist with decision making on the asset pools, governance, savings and infrastructure.

A reply has also been received from DCLG on the Clwyd Fund February submission which asked for consideration for holding some assets outside a pool. The response requires both interpretation and discussion with the Fund's advisors.

This is a fast moving project and a further verbal update will be provided at Committee. Clwyd Fund Officers will continue to work on the project and express the views of the Fund to enable the best possible outcome for stakeholders, albeit some compromise should be anticipated.

### RECOMMENDATIONS

1	That the Committee discuss progress in this report and after receiving a further verbal update consider any recommendations made.
2	That Committee agree with advice from officers and investment adviser to continue to support the recommendation to rent a provider.

## REPORT DETAILS

<b>1.00</b>	<b>Pooling Investments</b>
1.01	The SWT (Pension Sub Group) have re-visited the decision to rent a provider. Following a risk analysis of the options available the Group agreed to continue with the rent option, which is supported by Clwyd Fund practitioners and investment advisor.
1.02	There was an 'Information Day' on 12 <sup>th</sup> May 2016 in Cardiff at which all 8 funds were represented and WLGA. The Clwyd Pension Fund Manager and Corporate Finance Manager represented the Clwyd Fund. Two potential providers explained different approaches to the 'rental model'. No decision was made following these presentations but Hymans Robertson will be making recommendations to the Group.
1.03	On 13 <sup>th</sup> May 2016 all 8 Committee/Panel Chairs joined the SWT (Pensions Sub Group), Officers and WLGA. The Chairs were updated on the project. The briefing note provided which gives full background to the project is Appendix 1. They then met with representatives from LGA, DCLG and HMT to discuss the Wales Pool. The feedback on the Wales Pool approach was positive. A selection of Officers from the 8 funds will present to a Panel in early June (date to be confirmed).
1.04	<p>Ahead of the above presentation Hymans Robertson will be making recommendations on:</p> <ul style="list-style-type: none"><li>• The legal structure for pooling investments</li><li>• Clarity on investment decision-making and governance</li><li>• Range of asset pools to be available to participating funds</li></ul> <p>Clwyd Fund officers and advisors will inform Committee on the impact of the recommendations on the Clwyd Fund and recommend support or otherwise. Clearly the timetable set by Government makes proper local evaluation difficult but this is being faced by all LGPS funds.</p>
1.05	There are two national groups with representatives from the pools on Responsible Investment and Infrastructure. Clwyd Fund Pension Finance Managers are representing the Wales Pool on both groups and will provide a verbal update to Committee.
1.06	A response has been received from DCLG officials on the Clwyd Fund submission in February which considered holding assets outside a Pool. The response is shown below. There will be an opportunity in the Annex to the July Wales Pool submission to further explain any exemptions. Fund Officers and Advisors will work with Hymans Robertson to express the view, agreed by Committee, within the submission. The consideration of assets to be held outside the Pool is part of the Project Plan and will be clearer when the range of assets available is known.

Philip,

I am writing in response to the submission from Clwyd of 16 February 2016, specifically in relation to the business case for holding assets outside of the proposed LGPS pool.

As stated in the guidance, any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale, drawing on estimated transition costs, and forecast costs and net performance. We are not yet aware of any asset class or investment type that should be exempt from pooling in principle, though in some cases the transition period may be extended. The comments below are based on the information we've received to date.

#### **Managed Account Platform**

- We would expect this type of investment to be managed by the pool, as part of each fund's investment strategy.
- The pool may choose to invest through this vehicle, providing it is the most suitable option for these investments.

#### **Liability Matching Mandate/Tactical Asset Allocation platform**

- In principle the risk/return requirements which these seek to deliver could be delivered through the pool if the appropriate asset types are available. Transition costs will need to be set against the potential for improved net performance.

#### **Legacy Illiquid assets**

- As a result of recent tax changes, for initial seeding transactions only, UK property can be transferred into an ACS without attracting Stamp Duty Land Tax. Therefore any request for an exemption could not rely on the application of SDLT and, at present, we cannot see a clear rationale for UK property to be kept outside of an ACS. This will depend on the structure of the Wales Pool and the nature of the legacy illiquid assets.
- Funds will need to be clear how assets remaining outside the pool, including property, will be managed.

I should highlight that we do not yet have a clear understanding of the structure and governance of the proposed Welsh Pool. Proposed asset exemptions will be scrutinised as part of the review process for the 15 July submissions.

Please let me know if you have any questions.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The advisory and project management costs are being equally shared between the 8 Wales Funds. Officer support is being provided within existing resources in the Business Plan.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None required for this update report.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Pooling Investments is a key risk on the Fund's risk register as it could impact on the Fund's ability to deliver its investment strategy which in turn could impact investment risk and return and the pension cost to employers.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Briefing Note for Pension Committee Chairs

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Letter from Minister for Local Government to 8 Wales pension funds – Wales Investment Pool proposal – 24<sup>th</sup> March 2016.</p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF or the Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>PFC or Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(c) <b>PFAP – Pension Fund Advisory Panel</b> – The Pension Fund Advisory Panel is a group of officers and advisers to the Clwyd Pension Fund, currently consisting of:</p> <ul style="list-style-type: none"> <li>• The Chief Executive</li> </ul>

- The Corporate Finance Manager (Section 151 Officer)
- The Clwyd Pension Fund Manager
- Investment Consultant
- Fund Actuary
- Independent Adviser

(d) **FCC – Flintshire County Council** – the administering authority responsible for managing the Clwyd Pension Fund

(e) **DCLG** – Department of Communities & Local Government.

(f) **HMT** – Her Majesty’s Treasury

(g) **WLGA** – Wales Local Government Association