



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, THURSDAY, 9TH JUNE, 2016

Location

Ystafell Gwyrfai, Council Offices, Caernarfon, Gwynedd. LL55 1SH

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(DISTRIBUTED 01/06/16)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (3)

Councillors

Peredur Jenkins

W. Tudor Owen

Simon Glyn

Independent (2)

Councillors

Trevor Edwards

John Pughe Roberts

Labour (1)

Councillor Glyn Thomas

Liberal Democrats (1)

Councillor Stephen W. Churchman

Co-opted Members

Hywel Eifion Jones
Margaret Lyon

Anglesey County Council
Conwy County Borough Council

Aelodau Ex-officio / Ex-officio Members

Chairman and Vice-Chairman of the Council

A G E N D A

1. ELECT CHAIRMAN

To elect a Chairman for 2016/17

2. ELECT VICE-CHAIR

To elect a Vice-chairman for 2016/17

3. APOLOGIES

To receive any apologies for absence

4. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

5. URGENT ITEMS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

6. MINUTES

4 - 6

The Chairman shall propose that the minutes of the meeting of this committee held on 17.3.2016 to be signed as a true record

7. PRIVATE EQUITY INVESTMENT

7

Consider the Investment's Manager report

8. INVESTMENT POOLING FOR LGPS PENSION FUNDS IN ENGLAND AND WALES

8 - 12

Consider the Head of Finance report

PENSIONS COMMITTEE 17/03/16

PRESENT: Councillors: Trevor Edwards, Seimon Glyn, H. Eifion Jones (Anglesey Council Representative), Margaret Lyon (Conwy County Borough Council Representative), W. Tudor Owen (Chairman) and Glyn Thomas.

OFFICERS: Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Nicholas Hopkins (Pensions Manager) and Lowri Haf Evans (Member Support and Scrutiny Officer).

1. APOLOGIES

Apologies were received from Councillors Stephen Churchman, Peredur Jenkins and John P. Roberts.

Osian Richards, a member of the Pensions Board, was welcomed to the meeting, as an observer.

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

Dates for information:

27 - 28 June 2016 Members' Training in London

23 - 24 June 2016 'In at the Deep End' Conference. It was decided that Cllrs Trefor Edwards and Glyn Thomas would attend and also an invitation to two members of the Pensions Board.

4. MINUTES

The Chairman signed the minutes of the previous meeting of this committee, held on 11 February 2016, as a true record.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2016/17

It was explained that in accordance with the Welsh Government's Statutory Guidance on Local Government Investments, that the Council was required, as part of its treasury

management function, to prepare an Annual Investment Strategy. As good practice, it was considered that the Gwynedd Pension Fund (the "Fund"), should adopt Gwynedd Council's Treasury Management Strategy, as revised for the purpose of the Pensions Fund.

Submitted - the report of the Head of Finance, requesting the Pensions Committee to approve the Annual Treasury Management Statement and the Investment Strategy for 2016/2017. It was explained that Gwynedd Council's Statement had already been scrutinised by the Audit Committee (February 11.2.16) and approved by the Full Council on 3 March 2016.

In addition, the Pensions Committee was requested to make a request to the Council to allow the surplus cash balances of the Pensions Fund to continue to be pooled with the Authority's general cash flow from 1 April onwards. It was explained that pooling the fund attracted better interest rates, reduced banking costs and avoided duplication of work within the Council.

Considering the increased risks and the continuation of low returns from short-term unsecured investments, the Authority's objective for 2016/17 was noted, namely, to diversify to more secure/ higher yielding assets. At the moment, most of the Authority's surplus cash was invested in unsecured bank deposits, certificates of deposits and money-market funds. It was reiterated that Arlingclose, the Authority's treasury advisor, offered creative investment methods and, therefore, the diversification would represent a substantial change in the strategy over the coming year.

The recommendations were proposed and seconded.

RESOLVED

- **To approve the Treasury Management Strategy Statement and the Annual Investment Strategy for 2016/17, as revised for the purpose of the Pensions Fund.**
- **To request that the Council (although not a separate body) to allow the surplus cash balances of the Pension Fund to continue to be pooled with the Council's general cash flow from 1 April 2016 onwards.**

6. STATEMENT OF INVESTMENT PRINCIPLES

Submitted - the report of the Investment Manager, requesting the Committee to adopt the Statement of Investment Principles. It was noted that the revised document included amendments that had been introduced in November 2015. It was reported, following an eight week consultation period, that there was a need for the Committee to formally adopt the final version. (It was highlighted that although there were very few amendments to the Statement, it was required for them to be implemented.)

Attention was drawn to the responsibility of the Investment Manager and it was outlined that the statement established boundaries and responsibilities.

Proposed and seconded to adopt the revised Statement of Investment Principles.

RESOLVED to formally adopt the Statement of Investment Principles

7. WESTMINSTER GOVERNMENT (DCLG) CONSULTATIONS UPDATE

Submitted - the report of the Head of Finance Department, reminding Members that responses had been submitted to two recent consultations issued by DCLG, as follows:

- a) Local Government Pension Scheme: Investment Reform Criteria and Guidance.
- b) Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

It was reported that the Government had not responded to the consultations and the funds continued to wait for a decision. It was suggested that there could be two possible responses - either permit ONE fund for Wales or to merge with a fund over the border.

It was highlighted that the situation was vulnerable and it was unlikely that guidance would be offered on the matter from the Westminster Government. Should Gwynedd merge with other funds over the border, the Chairman and Head of Finance Department would be required to hold discussions with funds in order to secure the best interest of the Gwynedd pension fund. A request was made for the Westminster Government's response to be shared when published. Should the need arise to share further information, then a decision would be made to convene an extraordinary meeting.

The observations were accepted.

The meeting commenced at 2.00 pm and concluded at 2.30 pm

CHAIRMAN

MEETING: PENSIONS COMMITTEE

DATE: 9 JUNE 2016

TITLE: PRIVATE EQUITY INVESTMENT

PURPOSE: To ask the pensions committee to decide on the investment

RECOMMENDATION: ACCEPT THE RECOMMENDATION

AUTHOR: CAROLINE ROBERTS, INVESTMENT MANAGER

1. INTRODUCTION

1.1 A meeting of the investment panel was held in London on 19 Mai 2016.

2. PRIVATE EQUITY INVESTMENT

2.1 Following a presentation and a discussion with Hymans Robertson on the options for a further commitment to private equity investments in order to attain the strategic benchmark of 5% for Private Equity. The Panel's opinion was that an investment of €30 million (£25 million) should be made in a private equity direct fund with Partners Group. As this is a direct investment it is not necessary to go through a procurement process.

3. RECOMMENDATION

3.1 The Committee is requested to confirm a direct investment in

Partners Group Direct Equity 2016 Fund

in accordance with the Panel's opinion.

Agenda Item 8

MEETING	PENSIONS COMMITTEE
DATE	9 JUNE 2016
TITLE	INVESTMENT POOLING FOR LGPS PENSION FUNDS IN ENGLAND AND WALES
AUTHOR	DAFYDD EDWARDS, HEAD OF FINANCE

1. INTRODUCTION

- 1.1 At the Committee meeting on 17 March 2016 members were informed that a response to the Welsh LGPS funds submission to the Investment pooling consultation had not been received.
- 1.2 Subsequently a response was sent to the Chair of each of the eight Welsh fund from Marcus Jones MP welcoming the initial Welsh proposal and encouraging the funds to continue with the work to develop a detailed submission that fully addresses the criteria by 15 July 2016.
- 1.3 This letter was circulated to all members of the Pensions Committee and the Pension Board by the Head of Finance at the end of March.

2. BACKGROUND

- 2.1 Collaboration across the eight LGPS pension funds in Wales is not new. In recent years, there has been support from elected members across all eight funds to explore the opportunities for achieving efficiencies within the areas of funding and investment by considering issues such as scheme mergers and collaboration on investments.
- 2.2 In March 2013, the Pensions Sub Group of the SWT published a substantial report ('Welsh Local Government Pension Funds: Working Together') which included a formal consultation process.
- 2.3 Following guidance from the wider DCLG Consultation on Cost savings and Efficiency, the Pensions Sub Group commissioned a further report in early 2015 on the development of a detailed business plan for the establishment of a common investment fund.

3. UK GOVERNMENT - AGENDA FOR STRUCTURAL REFORM

- 3.1 In July 2015, the UK Government suggested that all LGPS assets within England and Wales should be pooled. Informal discussions with funds commenced in the

summer and it was made clear that the funds themselves would be invited to put forward their own proposals as to how asset pooling might best be implemented. Discussions began across the Scheme on the possible composition of the different asset pools.

3.2 In September 2015, each of the eight Welsh funds' Pensions Committees formally resolved to set their own course significantly in advance of the guidelines which were subsequently laid down by DCLG / HMT. Decisions were taken to:

- appoint a single provider of passive management services for funds, and
- proceed with establishing a formal Collective Investment Vehicle (CIV) to facilitate asset pooling.

3.3 It was also decided that the funds would use a third party provider (an 'operator') to supply the necessary infrastructure for establishing a pooling vehicle fully regulated by the FCA (Financial Conduct Authority) - rather than creating their own vehicle.

3.4 This decision was made taking into account the limited internal resources available to establish its own pooling vehicle, the shorter timescales for likely implementation and the lower level of regulatory risk that such an approach would imply.

3.5 In November, the formal criteria were issued by DCLG against which the pooling proposals put forward by the LGPS would be assessed. There were four key criteria:-

- Scale
- Strong governance and decision making
- Cost efficiency and value for money
- Improved capacity to invest in infrastructure

3.6 The Welsh funds reviewed their progress to date on pooling investments and decided to proceed with establishing a Wales Pool within the guidelines laid down by UK Government, through the DCLG.

4. FEBRUARY SUBMISSION

4.1 A proposal for a Wales Pool was submitted to DCLG in line with their prescribed timetable by 19 February 2016, along with letters of support from each of the relevant Committee Chairs.

4.2 The proposal addressed each of the stated criteria except for scale where DCLG had indicated that they anticipated pools with a minimum of £25bn of assets. (Total assets across the Welsh funds were in the region of £12-13bn. at March 2015). The proposal also stressed the substantial work done to date and unique situation of collaboration across Wales.

4.3 The response to the proposal from DCLG strongly supported the intended use of a formal regulated vehicle and acknowledged the unique characteristics of a Wales Pool. The funds were encouraged to work up the proposal in more detail for submission in July.

5. JULY SUBMISSION

5.1 More detailed submissions have been requested from all the proposed pools by 15 July 2016.

5.2 The submissions will need to provide more detail on:

- The proposed governance arrangements, including the legal structure of the proposed pooling arrangement and how accountability to participating funds will be maintained.
- The nature of the asset pools which will be made available to funds and how investment in different asset classes will be implemented.
- Estimated cost savings for each individual fund and the timescale over which these might be achieved.
- The pool's approach in investment in infrastructure.

5.3 Therefore, a number of decisions need to be taken in relation to the proposed working of the pool over the next few weeks.

6. WHAT WILL THIS MEAN FOR ADMINISTERING AUTHORITIES?

6.1 One of the key principles is that administering authorities will retain control over setting the investment strategy and detailed asset allocation for their individual funds. This allows the broad risk and return characteristics of the strategy to be set in conjunction with each fund's overall funding strategy.

6.2 But funds will then invest in asset pools which will be made available by the operator of the Wales Pool.

6.3 One of the Government's aims is that the appointment of investment managers is no longer carried out at an individual fund level. Decisions on investment managers for each asset class or mandate will be made collectively at a pool level.

6.4 Governance arrangements will be put in place to allow oversight of the operator and ensure accountability back to individual funds.

- 6.5 One of the principles behind the Government's imposition of pooling is that larger asset pools will result in fee savings with investment managers. Within Wales, this has already been achieved through the passive manager appointment which has generated an estimated overall saving of £1.3m p.a.
- 6.6 In aggregate, there is likely to be less manager turnover which would reduce transaction costs. And combining assets may make it more cost effective for some funds to access certain asset classes (such as private equity, property and infrastructure) where relatively expensive 'fund of fund' approaches are currently used.
- 6.7 However, the changes do mean that individual Pensions Committees will have less control over their underlying investment managers and some compromise will be required across the funds when determining exactly which sub-funds will be made available for investment.
- 6.8 It is anticipated that initial transfers of liquid assets into the pooled vehicle might begin in the second half of 2017 – ahead of the government target of April 2018. The Government has conceded that illiquid investments, such as property, infrastructure, and private equity are likely to transition into the pools over a much longer period of time, and has stressed specifically that investments with significant exit costs should not be wound up early on account of the pooling arrangements.
- 6.9 Within the pool submission in July, individual funds will be allowed to request that they retain specific assets outside of the pool, though it is anticipated that these will only be allowed in exceptional circumstances.

7. NEXT STEPS

- 7.1 Officer representatives from each of the funds will be working over the next few weeks on agreeing some of the detail set out above. This will need to be reflected in the July submission to DCLG.
- 7.2 The nature of the pool's legal and regulatory structure has been discussed previously and the funds currently intend to proceed with a selection exercise later this year to appoint a third party provider for operating the CIV. Details of the governance process for overseeing the operator are still to be confirmed but are expected to be based on a joint committee with equal representation for each fund.
- 7.3 The range of sub-funds which will be made available to participating funds needs to be considered and agreed.
- 7.4 Funds have submitted data on their investment costs to CEM Benchmarking, a third party analytical firm, and this will help to set a baseline for monitoring future savings.

8. CONCLUSION

- 8.1 Members are requested to note the information in this report and the short timetable for submitting the second response by 15 July which means the response must be submitted before the next Pensions Committee.
- 8.2 The Committee is asked **to reaffirm their general support for the Welsh LGPS funds' proposal and to delegate the power to the Head of Finance, in consultation with the Committee's Chairman, to agree the content of the Welsh LGPS funds' July submission to DCLG**, with a copy thereof to be circulated to all the Committee's members for information