

COMMITTEE: **Pensions Committee**

DATE: **12 June 2017**

TITLE: **Wales Investment Pool**

PURPOSE: **Progress Report**

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Introduction

1. This report has been prepared to inform Committee Members of progress with the development of a Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales. Of course, members serving on the Committee during 2016/17 will be aware of the background.

Background

2. The eight LGPS funds in Wales have been working together for several years to identify areas of potential collaboration. A report was submitted to the 20 October 2016 Pensions Committee on progress to establish a Common Investment Vehicle on a voluntary basis.
3. The UK Government has issued a number of consultations on the management of LGPS investments and in 2015 announced that all LGPS funds in England and Wales must join together to form investment pools, rather than the current arrangement whereby individual funds appoint investment managers themselves. The Welsh funds submitted an outline proposal for a Wales Investment Pool in February 2016 and detailed proposals were submitted, as required, on 15 July 2016. The proposals included letters of support from the Chairs of Pension Committees of the eight funds.
4. Subsequently, a delegation from the Wales LGPS funds met the Minister on 16 November 2016 where the proposal and progress of the pool to date was discussed. The Minister formally approved the All Wales Investment Pool on 23 November 2016. Marcus Jones MP wrote:

"the Welsh funds have a long history of cooperation, and are working together successfully to develop the all Wales pool. I congratulate you on the exceptionally low fee for the passive equities portfolio of all Welsh funds which you have already secured. I was also glad to note your ambition to increase infrastructure investment. Given your strong partnership, and the special position of Wales I am therefore pleased to confirm that I am content for you to proceed as set out in your final proposal."

Welsh pension fund officers and chairs are continuing to work together in order to establish a Collective Investment Vehicle by 1 April 2018.

5. The Pool will not be a merger of the eight funds. Each fund will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS regulations and pensions' legislation in respect of their members. Annual statements of accounts and triennial actuarial valuations will still be prepared for each individual pension fund, and each fund will determine its own funding strategy (distribution of the portfolio between asset categories such as equities, property, etc.).
6. The pool will have a limited remit and its objectives, as set out in the submission document, will be:
 - To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
 - To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
 - To put in place robust governance arrangements to oversee the Pool's activities.
 - To work closely with other pools, in order to research the benefits that all stakeholders in Wales might obtain from wider pooling solutions, or potential direct investments.

Governance Issues

7. The Wales Investment Pool proposal includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is also proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eight funds.
8. Work is ongoing to establish the governance arrangements for the Pool, including preparation of a legally binding Inter-Authority Agreement (incorporating the Terms of Reference for the Joint Committee), the specification of the services to be provided by the Operator, and the role of the Officer Working Group. Consideration is also being given to the needs of the Pool for specialist legal and investment advice.
9. The Joint Committee met in a shadow form (i.e. without decision making powers) as a Joint Chairs' Group during 2016 and on 11 January and 20 March 2017. The eight funds have formally adopted the Inter-Authority Agreement to establish the Joint Committee. The Inter-Authority Agreement is available at <https://democracy.cyngor.gwynedd.gov.uk/documents/s10612/Wales%20Investment%20Pool%20-%20Appendix%20A.pdf>

10. The Joint Committee will receive reports on the procurement process for the Operator, and will make the final recommendation to appoint the bidder who best meets the specification criteria.
11. The Inter Authority Agreement, and establishment of the Joint Governance Committee has created a legal commitment for each authority, further to the full Council's approval on 2 March 2017.

Legal Implications

12. The current legislative framework for the pension fund investments carried out by Administering Authorities is set by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The law governing pensions is a complex and specialist area. The National Government's guidance indicates that the pooling of LGPS assets is permissible under current law (and of course the DCLG's guidelines insist that funds pool).

Financial Implications

13. The 'administrative' costs under the new arrangements, including governance costs of the Joint Committee, will be divided equally between the eight Welsh funds, but that subsequent 'investment' costs will be allocated to specific investments, proportional to those investments.

Procurement

14. The eight Welsh funds started the procurement process for an Operator for the Collective Investment Vehicle through the European Procurement process in March 2017. Eight responses to the Selection Questionnaire (SQ) were received, assessed and scored in May 2017. The Invitation to Tender (ITT) will be sent to 6 potential Operators in June.

Recommendation

The Committee is asked to note progress in development of the Wales Investment Pool, and to plan appropriate representation on the Joint Committee.