

## **Briefing Report: Welsh Collaboration Investment Group, July 2015**

### **1.00 PURPOSE OF REPORT**

- 1.01 To ask Members to approve the participation by the Fund in a joint procurement exercise with the other 7 pension funds in Wales for the appointment of a single provider for passive investments.

### **2.00 BACKGROUND**

- 2.01 The Society of Welsh Treasurers (SWT) Pensions Sub Group commissioned Mercer to develop a business case for the establishment of a governance structure and investment framework that will allow the eight Welsh LGPS funds to invest collaboratively.
- 2.02 Mercer completed this report in May 2015 and one of the recommendations was to consider the appointment of a single provider for passive investments across the eight Welsh funds. Further, that this could be done in advance of any further work on a 'collective investment vehicle' and that significant savings could be achieved.
- 2.03 It was agreed at the SWT Pensions Sub Group meeting on 26 June 2015 that a sub group of investment officers from all eight funds would meet and provide advice on this recommendation to the September meeting and a briefing paper for all funds to present to their panels/committees.
- 2.04 The investment officers met on 31 July 2015 at which there was a consensus for a potential way forward following detailed discussion.

### **3.00 CONSIDERATIONS**

#### **Passive Mandates**

- 3.01 To remind Committee Members, managers of passive investments simply follow the index and hence the fees are low compared with active mandates where manager skill is required to pick stocks. Therefore, the choice of manager is of relatively less importance and fees are the main driver for the procurement.
- 3.02 However, there are some more subtle differences between providers relating 'bid offer spreads', stock lending, currency hedging and the range of funds available which have a marginal impact on investment performance and need to be considered alongside fees. Hence it was concluded that appointing a third party to assist with the procurement would add value to the process.
- 3.03 In Wales, we have circa £3bn passive equity and bond exposure across the eight funds with **three managers** across **eighteen mandates**. Analysis showed there is a disparity of fees between managers and mandates leading to the assumption that immediate savings could be made if one provider was appointed which agreed with the Mercer report.

3.04 There are differing approaches to passive exposures across the funds, for example, some preferring a global rather than regional approach but the aim of the procurement would be to appoint a provider for passive investments who could meet both current and future needs of all eight funds. Hence certain agreed principles are recommended to be adopted:

- Individual investment strategies (geographical requirements) would be accommodated.
- Each fund would retain investment autonomy and independence and ownership of assets.
- The passive mandate would be either pooled or segregated (if no fee impact).
- ESG considerations and currency hedging to be accommodated if required.

3.05 Based on these principles the investment officers agreed to recommend:

- The appointment of one provider for passive investments on behalf of the eight Welsh Pension Funds.
- A joint procurement exercise to deliver fee savings to all eight funds by jointly appointing the same provider.
- The appointment of a third party to facilitate the procurement and provide expert advice, the costs to be split equally, which will be sourced via the Clwyd Fund's consultant framework.

3.06 Once approved by Committees/Panels delegation for the appointment should be given to relevant investment officers.

### **Timetable**

3.07 If approval is received for the procurement and relevant delegations given the new provider could be appointed and in place by April 2016. This assumes the Clwyd Fund launches the search for a consultant early October which enables the OJEU search to commence for the provider by the end November 2015.

## **4.00 RECOMMENDATION**

4.01 That Members agree to the participation of the Fund in the joint procurement exercise as outlined in the report.