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| MEETING | PENSIONS COMMITTEE |
| DATE | 8 SEPTEMBER 2015 |
| PURPOSE | UPDATE THE COMMITTEE ON THE WELSH PENSIONS COLLABORATION PROJECT |
| TITLE | WELSH LOCAL GOVERNMENT PENSION FUNDS - WORKING TOGETHER |
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1. INTRODUCTION

- 1.1** The Committee is aware of the project undertaken by the Pensions Subgroup of the Society of Welsh Treasurers and approved a contribution to the cost of the Business Case for a common investment approach in October 2014. The report was produced by Mercer and has been considered by the Welsh Treasurers. It was agreed that a summary report would be provided by Mercer for consideration by those responsible for governance in each of the eight pension funds.
- 1.2** The Summer Budget in July presented by the Chancellor of the Exchequer included reference to the Local Government Pension Scheme as follows:

Local Government Pension Scheme pooled investments

The government will work with Local Government Pension Schemes administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious plans are required to pool.

- 1.3** The work already undertaken by the Welsh funds has demonstrated that common investment is the way forward and further development of this collaboration will demonstrate commitment to pooling of investments.

2. ALL WALES COLLABORATION REPORT

2.1 A copy of the summary report from Mercer is attached to this report as **Appendix**

A. The report recommends that the Welsh Funds:

- Spend time to develop a share set of principles for collaboration.
- Pursue a more collaborative approach in order to avail the key benefits which include economies of scale and lower costs, increased consistencies, enhanced governance and operational management across the Welsh Funds.
- Select a single passive provider for passive assets to obtain immediate cost savings. A pooling structure would not be required to achieve these gains.
- Establish a pooling framework to extend on collaboration beyond passive assets.
- Adopt a regulated (pooling) vehicle along with a model that supports leveraging the infrastructure of a third party provider (rather than building such infrastructure internally).
- Consider framing the new collaborative framework as optional for each Welsh Fund but target mandates that are common to all to ensure strong uptake and an engaged and simple approach.
- Consider active equity as the immediate mandate to commence under the new collaborative framework. The analysis conducted highlights that mandates offer the greatest potential for cost savings and improved net of fees returns.
- Agree a set of next steps to take forward the project, including a workshop / training session and development of a project plan, including the potential tender process to assess suitable partners / providers to support the new collaborative framework.

3. CURRENT POSITION

3.1 Each of the Welsh Pension Funds will present the attached report to their Pensions Committee or equivalent in September 2015.

3.2 At the request of the Pensions Subgroup, the Welsh Collaboration Investment Group held a meeting in July 2015 to establish the way forward to select a single passive manager as this can be achieved without a pooling structure. This would be a joint procurement exercise to deliver fee savings by jointly appointing the same manager. A briefing report from this meeting is attached to this report as **Appendix B**.

3.3 As noted above the next step is to establish a pooling framework for the Welsh Funds with the aim of reducing fees and to concentrate on equity investments first. The recommended option is to use 'rent' a structure from a third party rather

than creating a bespoke structure just for Wales as it would be more flexible and cost effective. An independent advisor will be procured to assist with the procurement process.

4. RECOMMENDATION

4.1 In order to retain control of our own agenda as eight Welsh Pension Funds, each Pensions Committee is asked to support further work as detailed in the appendices, specifically to:

- Investigate opportunities for reduced fees for passive investments.
- Jointly assess the detailed business case for pooling frameworks for other investments.