Background

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.

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.

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.

UK Government - agenda for Structural reform

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.

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.

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.

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.

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

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.

FEBRUARY SUBMISSION

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.

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.

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.

JULY SUBMISSION

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

Since the last briefing update (22nd April), the eight Welsh Funds have continued work on the development of the pool. At a meeting of Fund Chairs, held in Cardiff on 13th May proposals for the presentation to DCLG were outlined, the following are proposed:

- Pool oversight and governance will be provided by a Joint Governance Committee including an Elected Member from each Welsh Fund
- The Joint Governance Committee will select and appoint an Operator (who will be appropriately authorised by the Financial Conduct Authority) to manage the pool on behalf of the Funds
- An Investment Working Group of Fund Officers to be created to deal with day-to-day matters between the pool Operator and individual Funds
- Asset 'buckets' to be created in the pool and managed by the Operator to be phased over time starting with active equity
- A timetable for moving to pooling agreed (see Below)
- A common approach across the Funds agreed in respect of an infrastructure investment 'aspiration' (see below).

WHAT WILL IT MEAN FOR ADMINISTERING AUTHORITIES

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.

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

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.

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.

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.

In addition, Government require pools to give an initial indication of their 'aspirations' in respect of infrastructure. Following discussions amongst the Welsh Funds together with indications of similar discussions amongst the other LGPS pools, it is proposed that the pool adopt an ambition of up to 5% of pooled assets be made available over coming years for infrastructure investment. However, it should be noted that this is merely the statement of an ambition and moreover, will be driven largely by individual funds strategic asset allocation needs on the one hand, and the availability of suitable investment opportunities being available on the other.

TIMESCALE

It is anticipated that the creation of the Joint Governance Committee will take place as soon after DCLG approval is received with the procurement of the Operator following soon after. By early 2017 the establishment of pooled vehicles (asset buckets) will begin with transition of assets from individual funds timetabled from late 2017.

It is expected and accepted that the creation of pooled arrangements for alternative asset classes (eg. private equity, property etc.) will be phased as will the transition of such assets due to their relative illiquidity.

NEXT STEPS

Officers from each of the funds will continue 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.

As mentioned above, the range of sub-funds which will be made available to participating funds needs to be considered further.

Funds have submitted data on their investment costs to CEM Benchmarking, a third party analytical firm. Reports at individual fund level have now been produced (a separate report in respect of the Powys Pension Fund will be presented to Pensions & Investment Committee on 11th July). At the pool level, the data analysed will be used to estimate cost savings anticipated and to also help to set a baseline for monitoring future savings.