

Local Government Pensions

SAB

England and Wales

Local Government Pension Scheme Advisory Board
Cllr Roger Phillips - Chairman

Cross Pool Open Session Welcome

Tuesday 27th March 2018

I will cover...

- Aims and objectives
- Agenda
- The democratic context of pooling
- Role of the Scheme Advisory Board
- Terminology

www.lgpsboard.org

The screenshot shows the SAB website homepage. The header is green with the title 'The Local Government Pension Scheme Advisory Board' and a navigation menu with items: Welcome, About the Board, Board Committees, Board Publications, Scheme Developments, Scheme Information, and Contact us. Below the header is a large image of the Houses of Parliament. The main content area includes a 'Welcome' section with a news item dated 4th April 2017, a 'Useful Links' section, and a 'Login for SAB Members' section.

The Local Government Pension Scheme Advisory Board

Welcome | About the Board | Board Committees | Board Publications | Scheme Developments | Scheme Information | Contact us

Scheme Advisory Board for England and Wales - Welcome

News

4th April 2017 "In conjunction with the Department for Communities and Local Government and the Department for Education, the **Local Government Association** has today published "Local Government Pension Scheme – arrangements for academies""

4th April 2017 **LGPS academies Update** - On the 29th March, Councillor Roger Phillips, Chair of the Board, met with the local government Minister, Marcus Jones, and Lord Nash, Parliamentary Under Secretary of State for the school system to discuss the findings of the PwC report and agree next steps. Councillor Phillips set out the three mechanisms for change highlighted in the report including non-regulatory measures within the LGPS; regulatory measures within the scheme and thirdly, measures outside of the LGPS including through primary legislation. Ministers were supportive of the Board's conclusion that nothing would be gained without some degree of change. Ministers agreed that the immediate focus should be to explore the scope for resolving the identified issues within the LGPS, either by way of general guidance, statutory guidance or, where necessary, through changes to the scheme's regulatory framework. Although agreeing to focus on solutions within the scheme at this stage, Ministers were also clear that should these not prove effective, more radical measures outside of the LGPS would not be completely ruled out.

Useful Links

- LGPS members site
- DCLG website
- Local Government Association
- The Pensions Regulator
- LGPS regs and guides
- Scottish Public Pensions Agency

Login for SAB Members

The Login form is for Scheme Advisory Board members only.

If you are a SAB member, please go to the Login form to access secure content.

- About the Board
- Board papers
- Committee papers
- Policy statements
- Board publications
- Scheme information
- Legal opinions
- Valuation reports
- Annual pension fund reports
- Useful links

Aims and Objectives

Today's forum will :-

- inform you of what other pools are doing;
- share information on the governance arrangements being established within each pool;
- Seek to set out the unique governance requirements of the LGPS
- explain the role of the scheme advisory board regarding pooling
- share ideas on preparing a common glossary of terms in the specific context of pooling, and
- give you the opportunity to discuss relevant issues with the panel of pool representatives.

But the forum will not :-

- Be a sales pitch for any of the pools
- Reach any conclusion on the optimal governance structure in a pool

Agenda

- 11.30 to 12.00 - Pool updates from Access, Border to Coast and Brunel
- 12.00 to 12.30 - Refreshment break
- 12.30 to 13.20 - Pool updates from Central, London CIV, LPP, Northern and Wales
- 13.20 to 14.00 - Open discussion with the panel
- 14.00 - Buffet lunch.

Panel Members

Access	-	Councillor Andrew Reid
Border to Coast	-	Chris Hitchen
Brunel	-	Dawn Turner
Central	-	Jill Davys
London CIV	-	Mark Hyde Harrison
LPP	-	Chris Rule
Northern	-	Euan Miller
Wales	-	Councillor Clive Lloyd

The context of pooling in the LGPS

- Pool companies will select managers and can offer new vehicles and opportunities but....
- Pool companies work for and in many cases are owned by pool authorities so local investment strategies and asset allocations will remain the primary driver of return
- Local committees and boards need assurance that implementation of strategy and asset allocations is effective
- Accountability via effective governance structures to scheme employers, scheme members and local tax payers remains key
- Pool authorities should drive responsible investment strategies within pools not be pushed down a particular road

Role of the Scheme Advisory Board

- The role of SAB is to :-
 - assist
 - advise
 - facilitate
 - co-ordinate, and communicate
- Particularly in the area of government thinking and policy on pools
- But it does not favour any one form of pooling over another
- The model of pooling is rightly determined by the member authorities taking into account local needs and resource, in this context different may not be better just different

Glossary of Terms

- What do we mean when we talk about a pool is it the authorities, the company or both?
- Are pool funds the authorities or the asset sub funds available to them?
- Different stakeholders need to work within a common language set
- Work with CPCG to develop a glossary of terms for consultation e.g.
 - “pool authorities” – the member administering authorities in each pool
 - “pool companies” - the pool company or companies, rented or built
 - “pool committees” - the governance structures by which authorities hold companies to account
 - “pool funds” – the sub funds or other vehicles the pool company offers to authorities
 - “The pool” – all of the above

disclaimer

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Thank you

Pool Updates

Cross Pool Open Forum

27 March 2018

Agenda

1. Participation
2. Principles
3. Progress
4. Governance
5. Next steps

Participation



ACCESS (a collaboration of central, eastern and southern shires) with assets of £41bn – **all of which are managed by third parties.**

c3,000 employers

c900,000 members

Strong performing funds and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise.

75% of the assets are invested across 12 managers and 71 different managers used across the authorities.



Principles

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

IMPLICIT:

- Fiduciary responsibility
- Democratic Accountability

Progress

Feb '16

- Initial Pool Proposal

Jul '16

- Final Pool Proposal

Late '16

- Twin track...and ACS outcome

Early '17

- Councils agree Inter Authority Agreement

Late '17

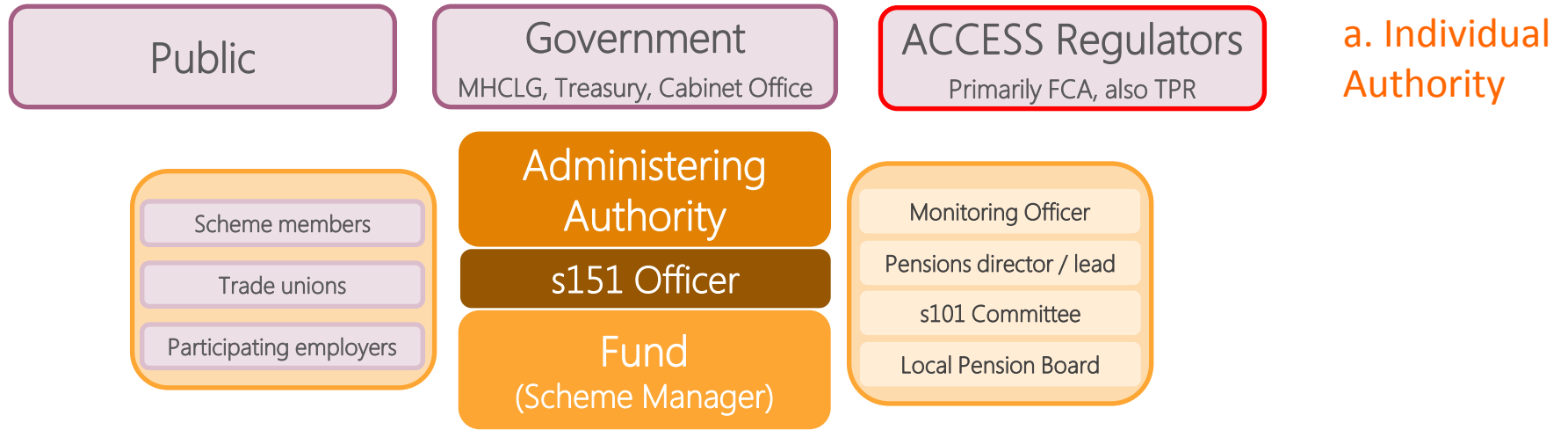
- Passive joint procurement: UBS

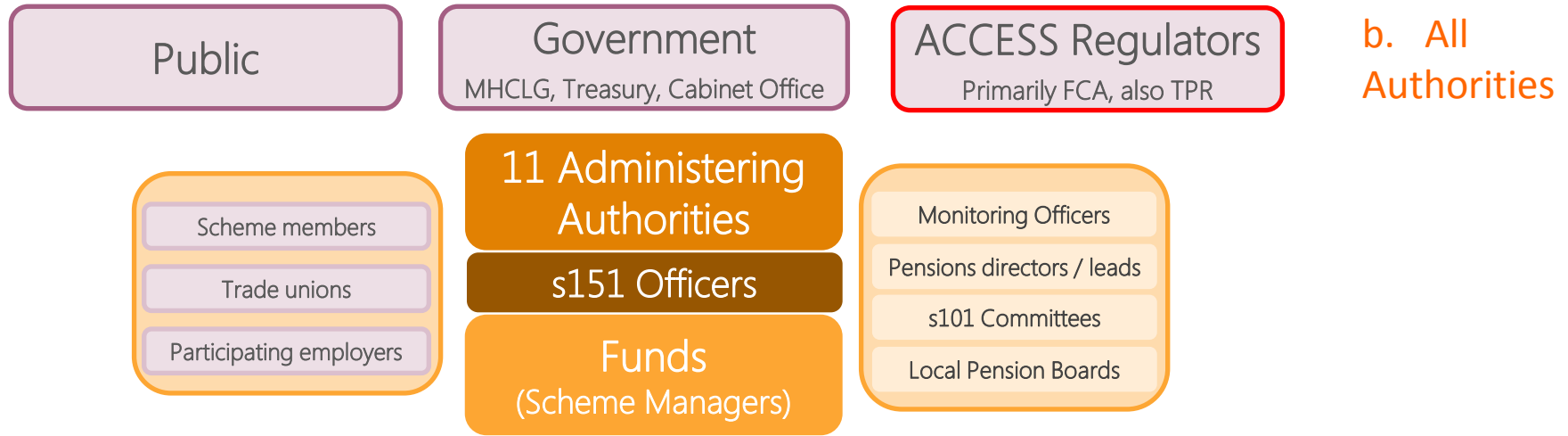
Early '18

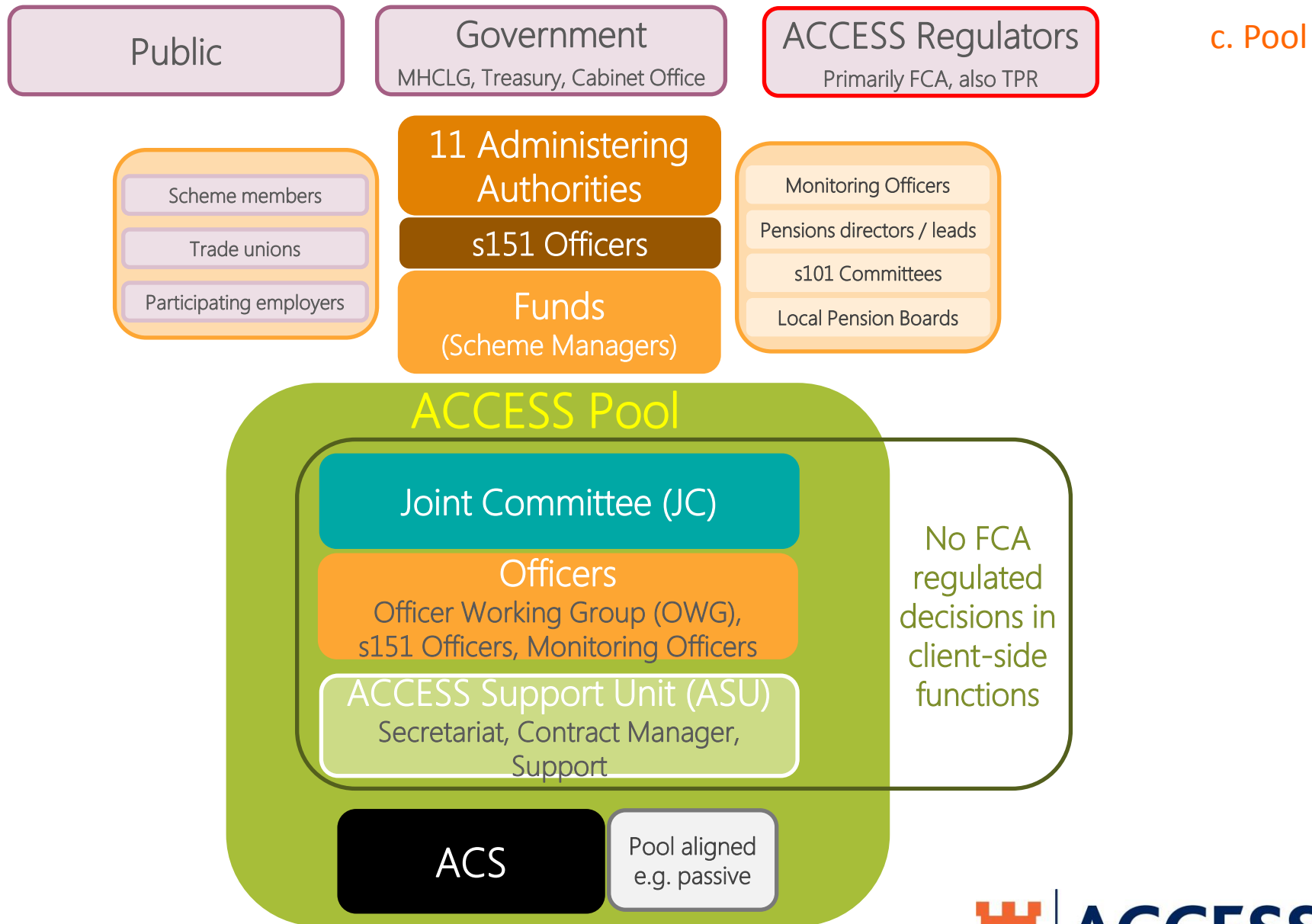
- Operator contract with Link sealed

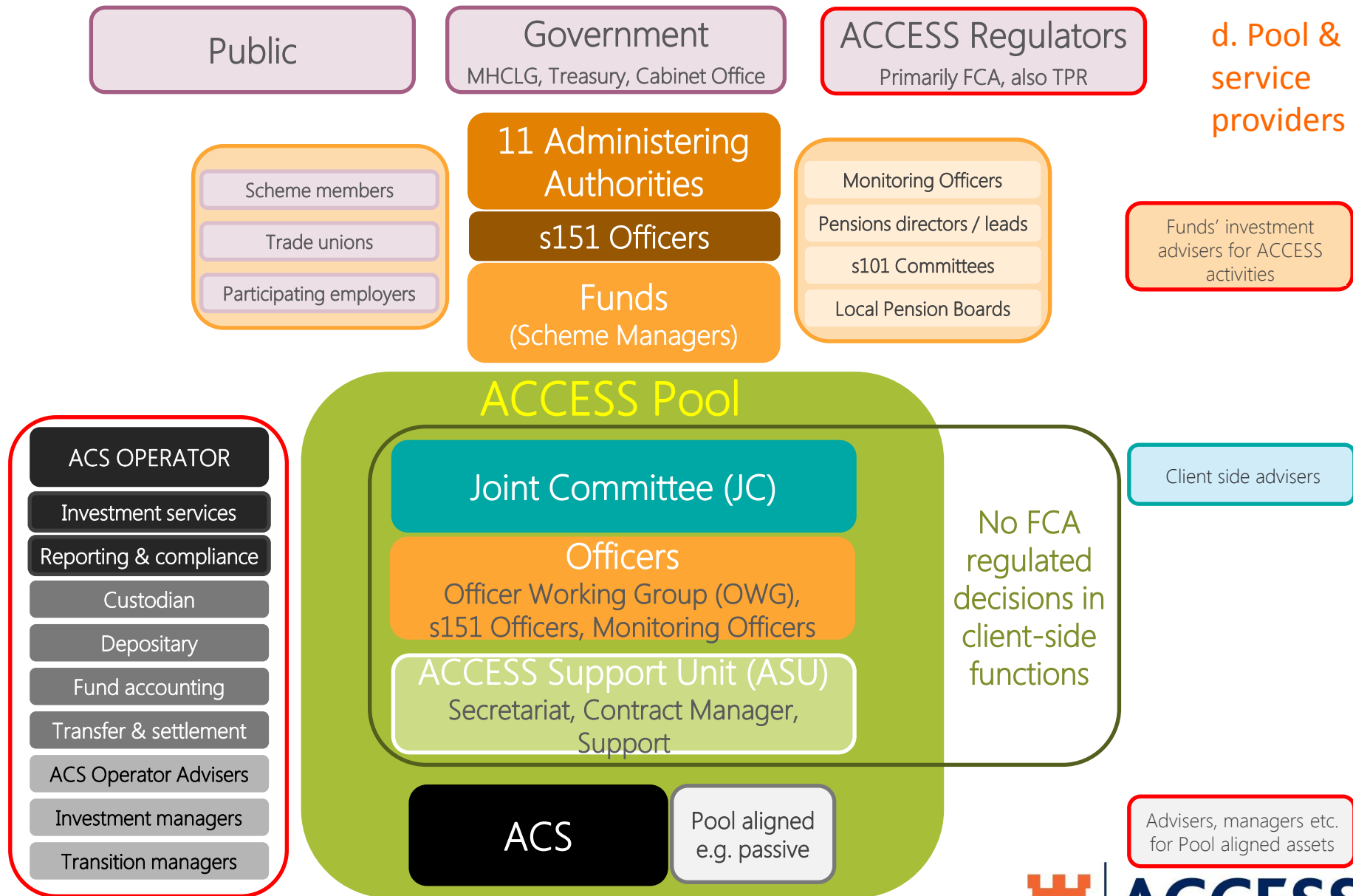
ACCESS Governance structure

- a.** Individual Authorities
- b.** All Authorities
- c.** Pool
- d.** Pool & service providers

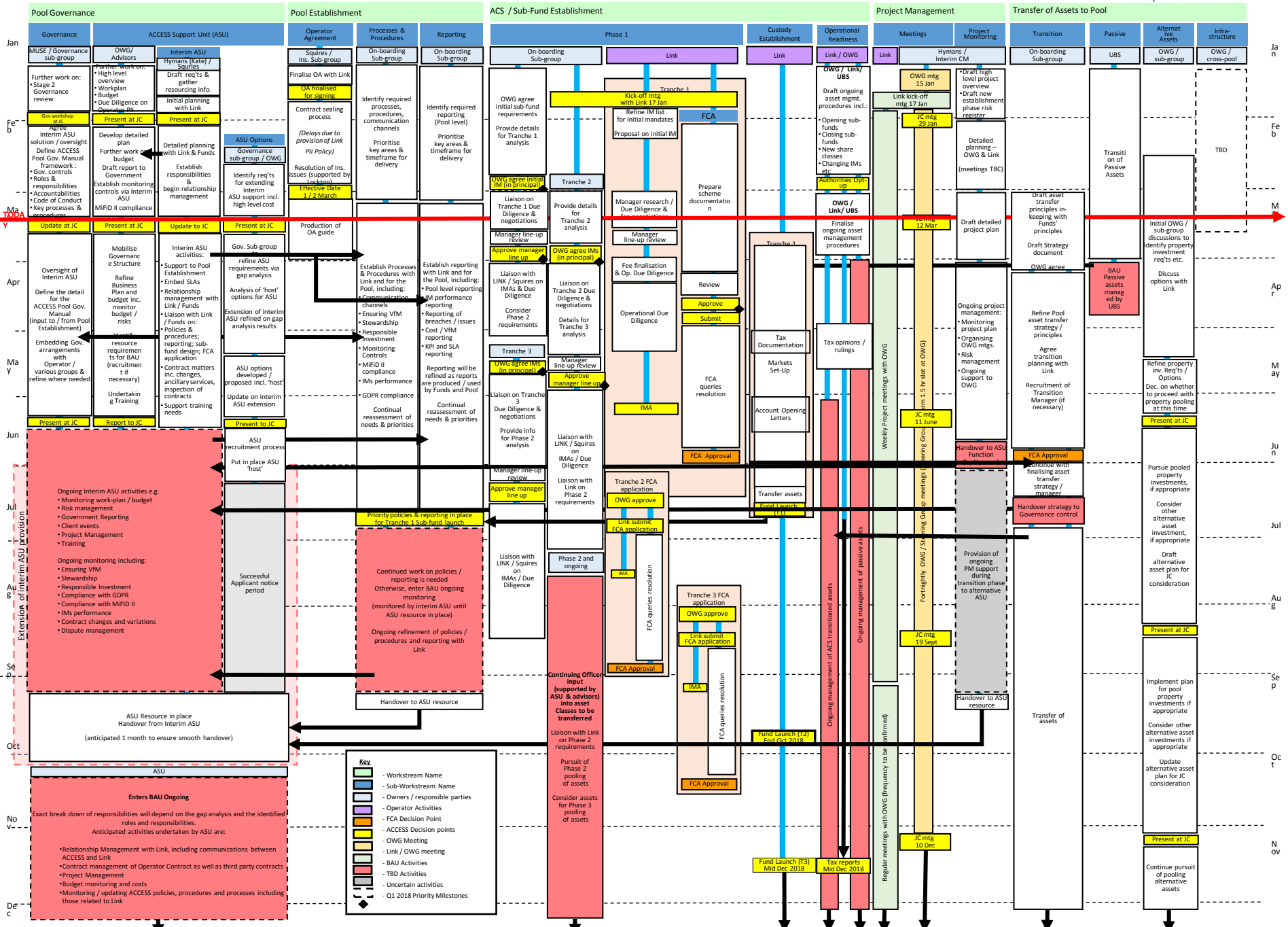








ACCESS
Effective • Collective • Investment



Next steps

1. ACS: aim for FCA approval end of June
2. Sub Fund authorisation
3. Phase 1 sub funds launches:
 - August (1)
 - November (6/7)
 - January (6/7)
4. Completion of governance manual
5. Support unit

Costs & savings: current position

	£	Basis Points	Occurrence	Comment
Implementation costs	£2m	0.005	Up to March 2018	
Running costs	Up to £5m	0.01	April 2018 onwards	Includes both: Pool support costs (equally shared) & Operator fee (pro rata invested assets)
Passive savings	£5m	0.01	2018 onwards	Pro rata invested passive assets

Principles...in detail

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

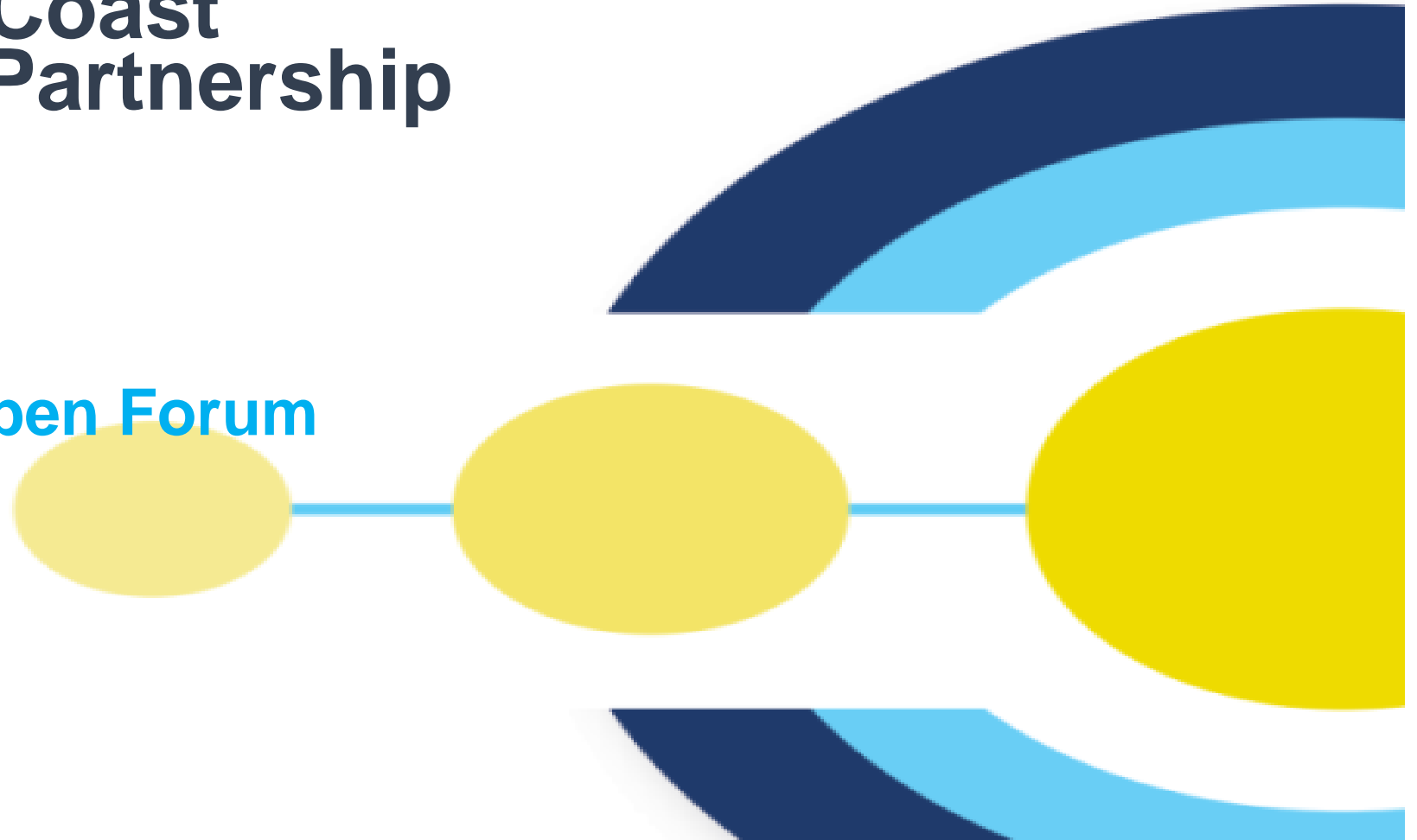
- The participating authorities will work collaboratively.
- Participating authorities will have an equitable voice in governance.
- Decision making will be objective and evidence based.
- The pool will use professional resources as appropriate.
- The risk management processes will be appropriate to the pool's scale, recognising it as one of the biggest pools of pension assets in the UK.
- The pool will avoid unnecessary complexity.
- The pool will evolve its approach to meet changing needs and objectives.
- The pool will welcome innovation.
- The pool will be established and run economically, applying value for money considerations.
- The pool's costs will be shared equitably.
- The pool is committed to collaboration with other pools where maximise benefits.

Border to Coast Pensions Partnership Ltd

SAB
Cross Pool Open Forum

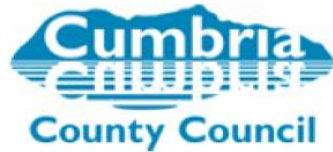
27-03-18

Chris Hitchen
Chairman



Border to Coast Pensions Partnership Reminder – Where Have We Come From?

12 Likeminded Funds,
c£50bn Assets Under Management,
Internal & External Management



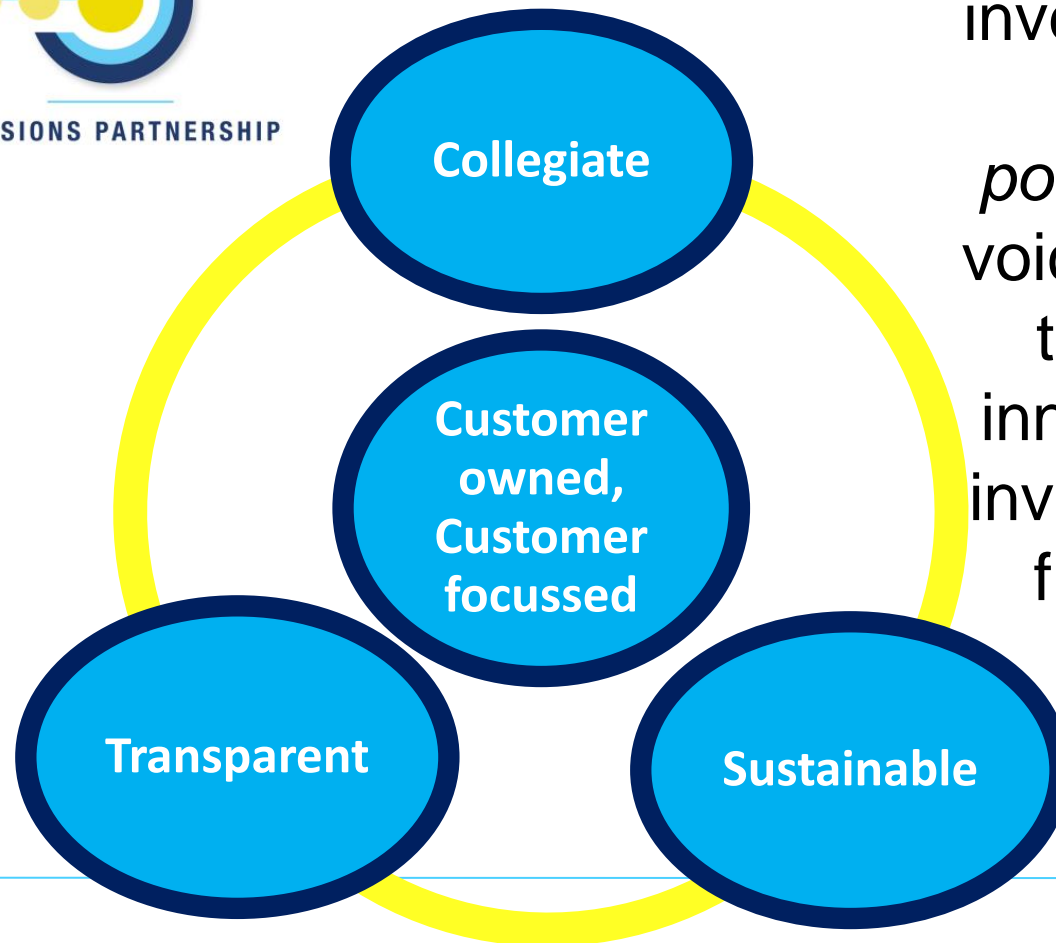
SOUTH YORKSHIRE
PENSIONS AUTHORITY



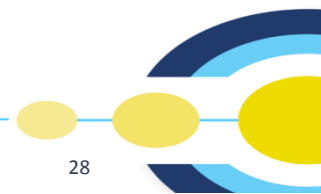
teesside pension fund

Border to Coast

Reminder - What Are We Trying To Build



Making a difference to investment outcomes for our Partner Funds through *pooling* to create a stronger voice; working in *partnership* to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable *performance*.



Border to Coast

Reminder - What Does “Go-Live” Mean

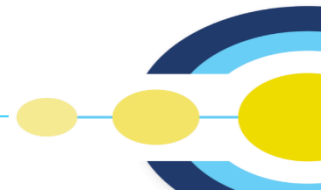
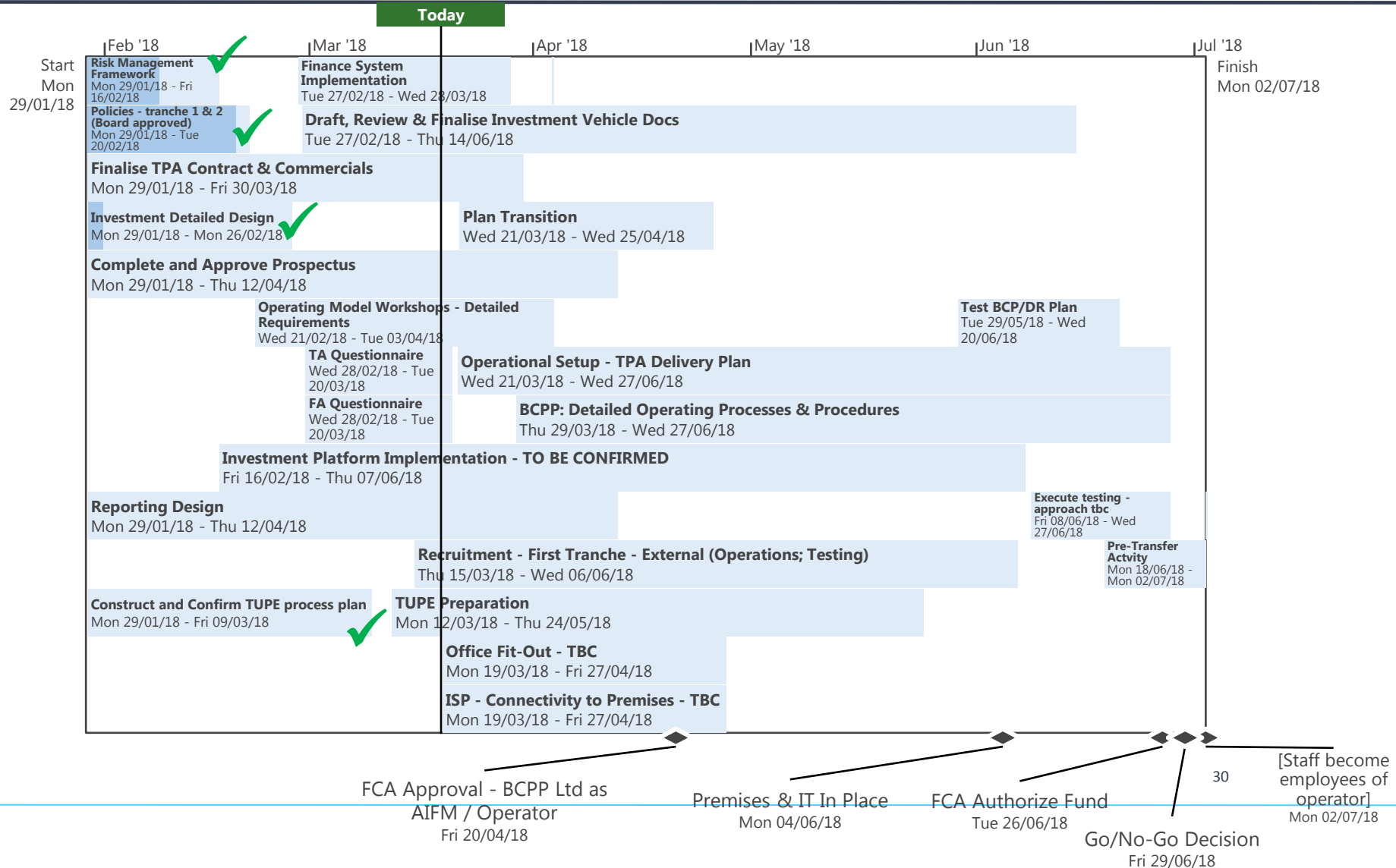
Our Partner Funds charged us with doing this “*Right not Fast*”

- In our July 2016 Submission, the Partner Funds of Border to Coast called out need for early approval due to elections.
- Agreed with HCLG in 2017 spring update that we would aim for a “go-live” of early July 2018

What does “*go live*” mean for Border to Coast:

- Border to Coast Ltd, will have the required regulatory approval, staff, processes and infrastructure in place to enable us to start the transition of assets from 2nd July 2018.

Border to Coast Implementation Timeline



Progress on Corporate Governance & Risk

Joint Ctte. & Board

- Joint Governance Ctte. formally constituted & meeting regularly
- Board formally constituted & meeting 6 weekly
- Reviewing number of NED's
- Major Policies & Risk Appetite Agreed

Scrutiny & Registration

- External Auditor Appointed & Presented to Board
- Internal Auditor appointment progressing to plan
- FCA Application submitted & initial feedback received
- Mifid II opt up process defined
- Control registrations required e.g. ISO 3402; GIP's agreed

Team

- Directors appointed
- Company Secretary Appointed
- CRO Appointed, progressing with build out of team



Progress on Investment

Asset Offering & Transition

- Initial Asset Template Agreed
- Two way sense check as sub-funds created
- Prospectus with partners for approval
- Looking at customer needs both now & into the future
- Initial transition timetable agreed
- Review risk at both sub-fund & at whole offering level as each sub-fund created
- Transition Strategy agreed – Procurement Advice ongoing

Infrastructure

- Investment TOM finalised
- Major policies agreed,
- Implementation with investment system provider progressing to plan

Team

- CIO (interim) appointed, permanent recruitment ongoing
- Structure agreed
- TUPE strategy agreed processing to plan,
- “Heads Of” – appointments progressing



Progress on Corporate Infrastructure & Operations

Corporate Infrastructure

- Corporate ICT provider's appointed build underway
- Building lease agreed & fit-out on-going
- Finance system provider appointed build underway
- Bank; payroll operating
- HR; procurement, board-pack systems - ongoing
- Testing of systems security & DR ongoing

Operations

- Operations TOM agreed
- Asset Servicer appointed & implementation progressing to plan
- Major policies documented and agreed;

Team

- "Heads Of" ICT; Legal; Finance; Ops, HR appointed
- Build out of their teams on- going
- Heads of Performance & Customer Strategy On-going

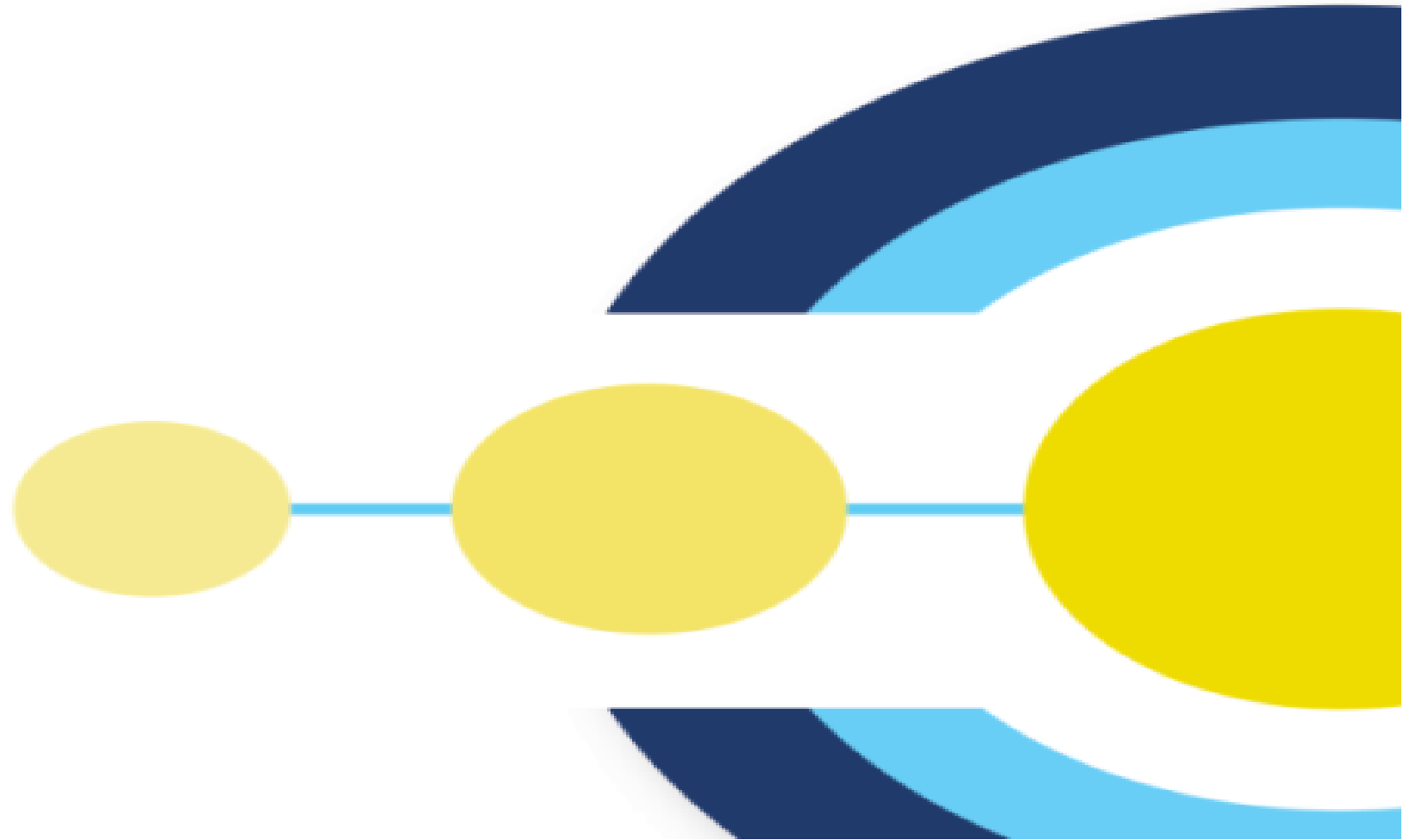


On Track For Planned Go Live?

- Currently activities running to plan.
- We are on track to be up and running with a robust model in July.
- We are planning for significant transition assets in 2018 covering both internal & externally managed assets, followed by further transitions in 2019 and 2020.



Border to Coast



Cross Pool Open Session

Dawn Turner – CEO, Brunel



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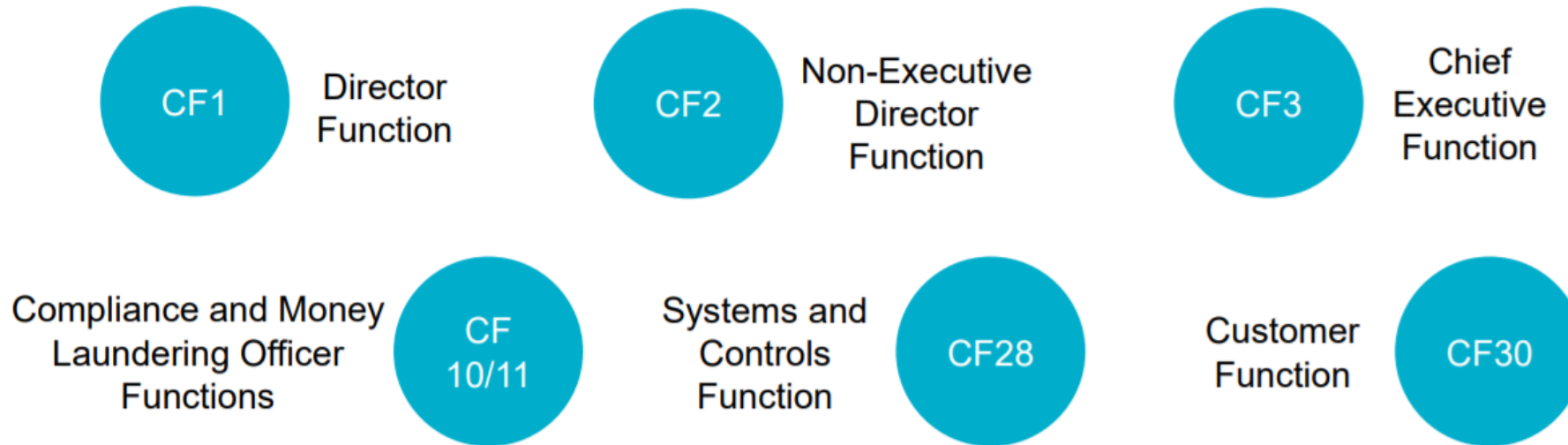
Authorised and regulated by the Financial Conduct Authority No. 790168

Updated March 2018

Pool



Permissions



- Control functions – company people and shareholders
- ICE – Internal Control Environment
- MiFID

- Office – culturally design for openness and collaboration



- 33 staff - fully appointed

- Diversity – gender equality throughout; third LGPS, two thirds external

Partners



TO INTEGRATE



TO COLLABORATE



TO BE TRANSPARENT



Purpose

We believe in making long-term, sustainable investments supported by robust and transparent processes



In collaboration with all our stakeholders we are forging better futures by investing for a world worth living in

We are here to protect the interests of our clients and their members

BRUNEL

Pension Partnership

Refreshment Break



LGPS CENTRAL

Jill Davys

Assistant Director, Investments & Finance

West Midlands Pension Fund

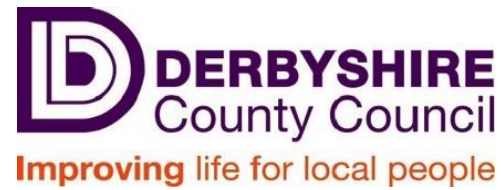


AGENDA



1. LGPS Central Governance Framework
2. Progress and Development
3. Questions

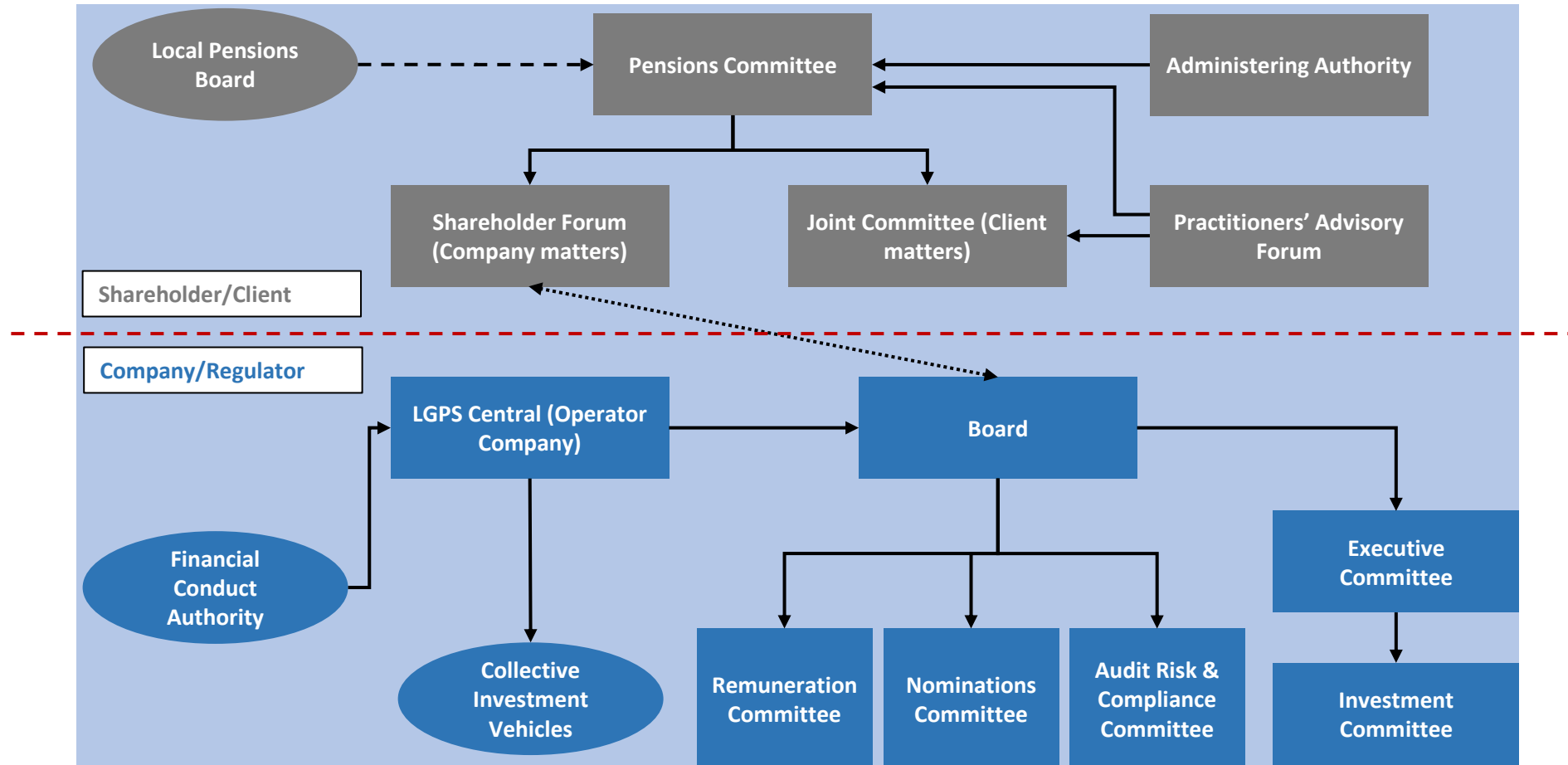
LGPS Central Governance Framework



£40bn



LGPS Central Governance Framework



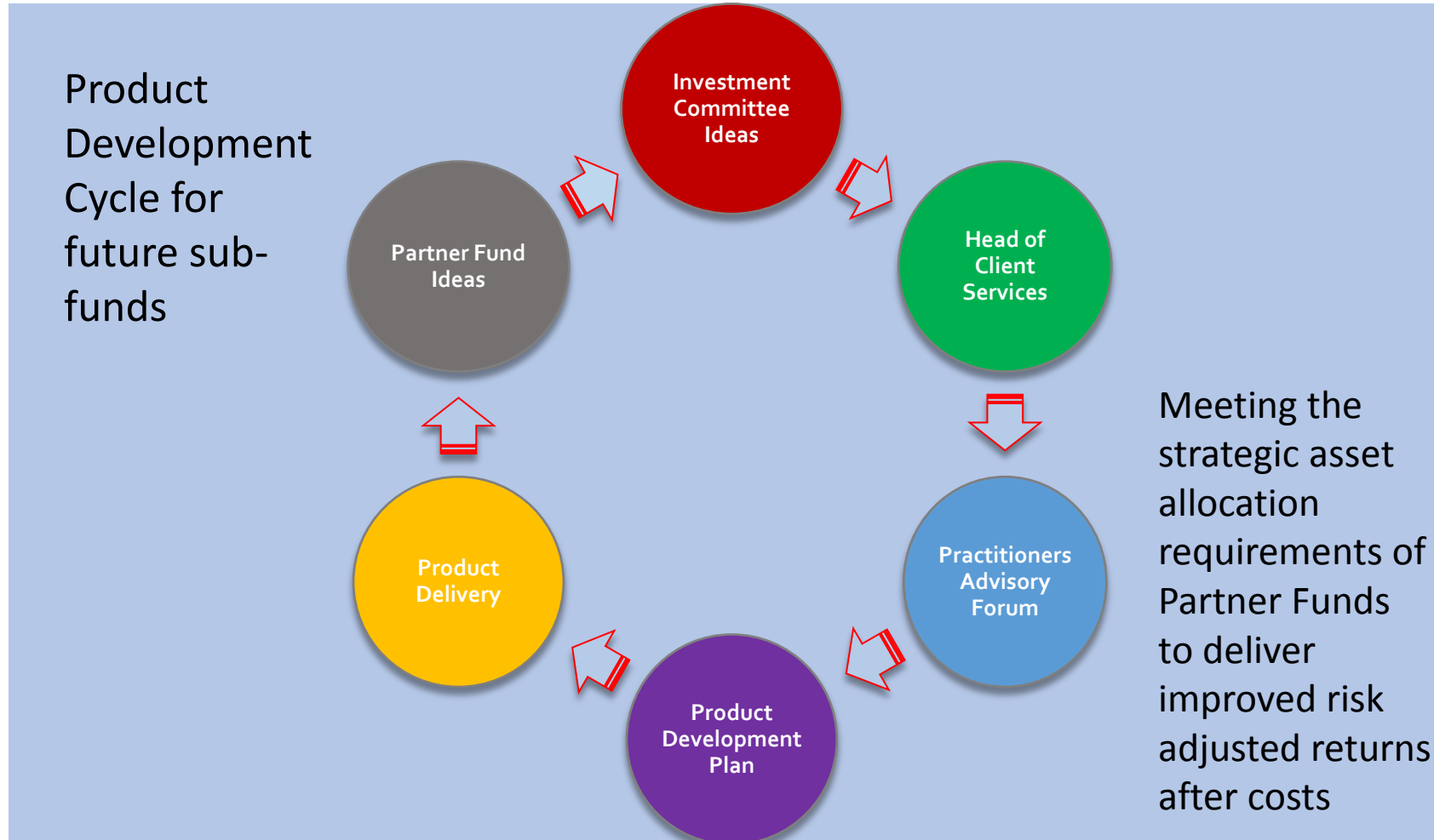
LGPS Central Governance Framework – Board and EXCO



Progress and Development

1. FCA Approval – Operator (January 2018);
2. Key roles appointed to
3. First 3 sub-funds (FCA approval - February 2018); Internal Passive Equity – sub-funds operational 3rd April
4. Development of active equity mandates – including external procurement – target launch dates autumn 2018

Progress and Development



Progress and Development



Providing the most efficient structure to access asset classes across different styles and geographies:

ACS
<ul style="list-style-type: none">• Equities• Bonds• Property

LLP
<ul style="list-style-type: none">• Infrastructure• Private equity• Target return

Life Policies
<ul style="list-style-type: none">• Equities• Bonds

Progress and Development

Partnership

1. Collaboration
2. Openness and Transparency
3. Reporting – Investment; Financial
4. Responsible Investment – Engagement; voting;

Cross Pools

27th March 2018

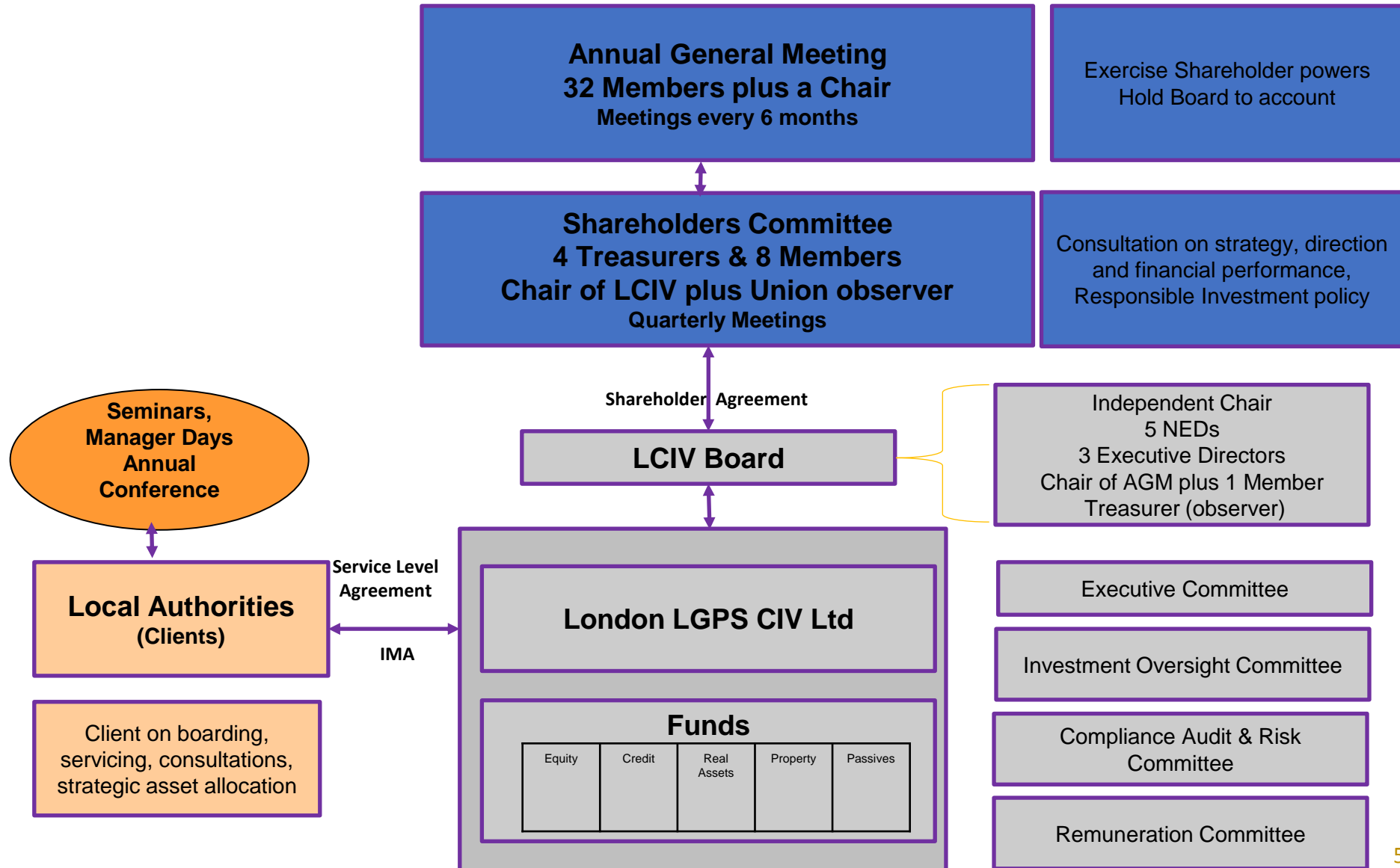


A collective Investment Vehicle for London Local Authorities (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk adjusted performance.

London CIV

- £14.6bn under LCIV oversight - over 40% pooled up from 10% last year.
 - £6.2bn AUM across 11 active sub-funds with a further £1bn in the pipeline.
 - £8.4bn AUM in passive alongside the CIV platform
- Five LCIV credit/fixed interest sub-funds announced for soft commitments.

Revised Governance Structure of London CIV

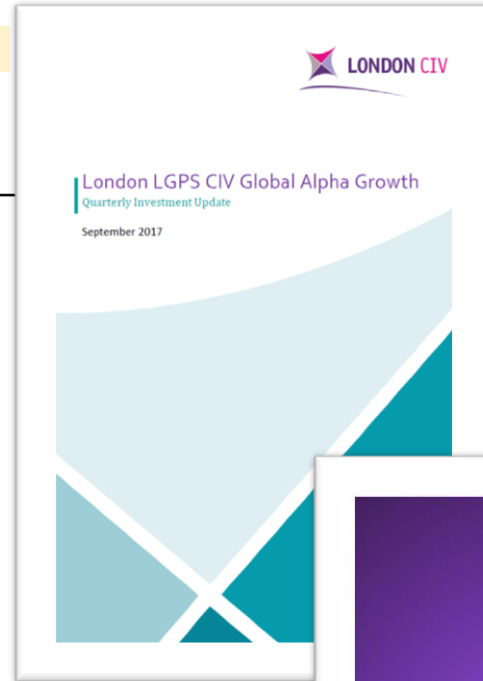


Client Reporting: Sample of Reports



CIV Quarterly Report

- Commentary on your Personalised Investment Mandate via both qualitative and quantitative analysis.

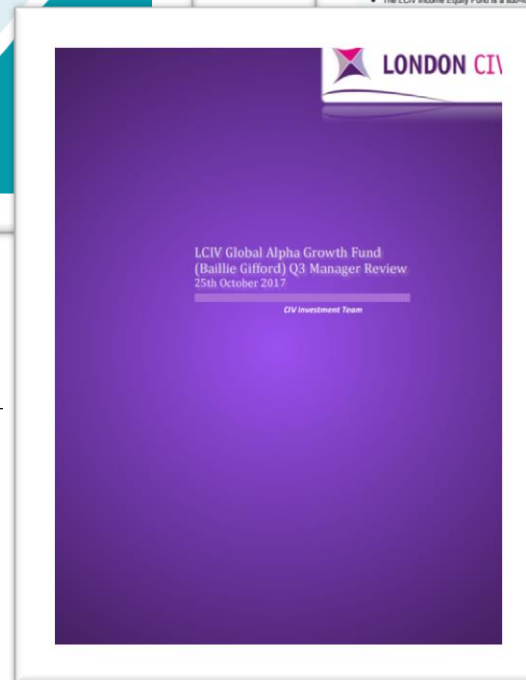


Information Sheet

- Objective
- Policy
- Fund summary
- Practical information
- Key characteristics
- Top 10 Holdings
- Sector & Country Weights

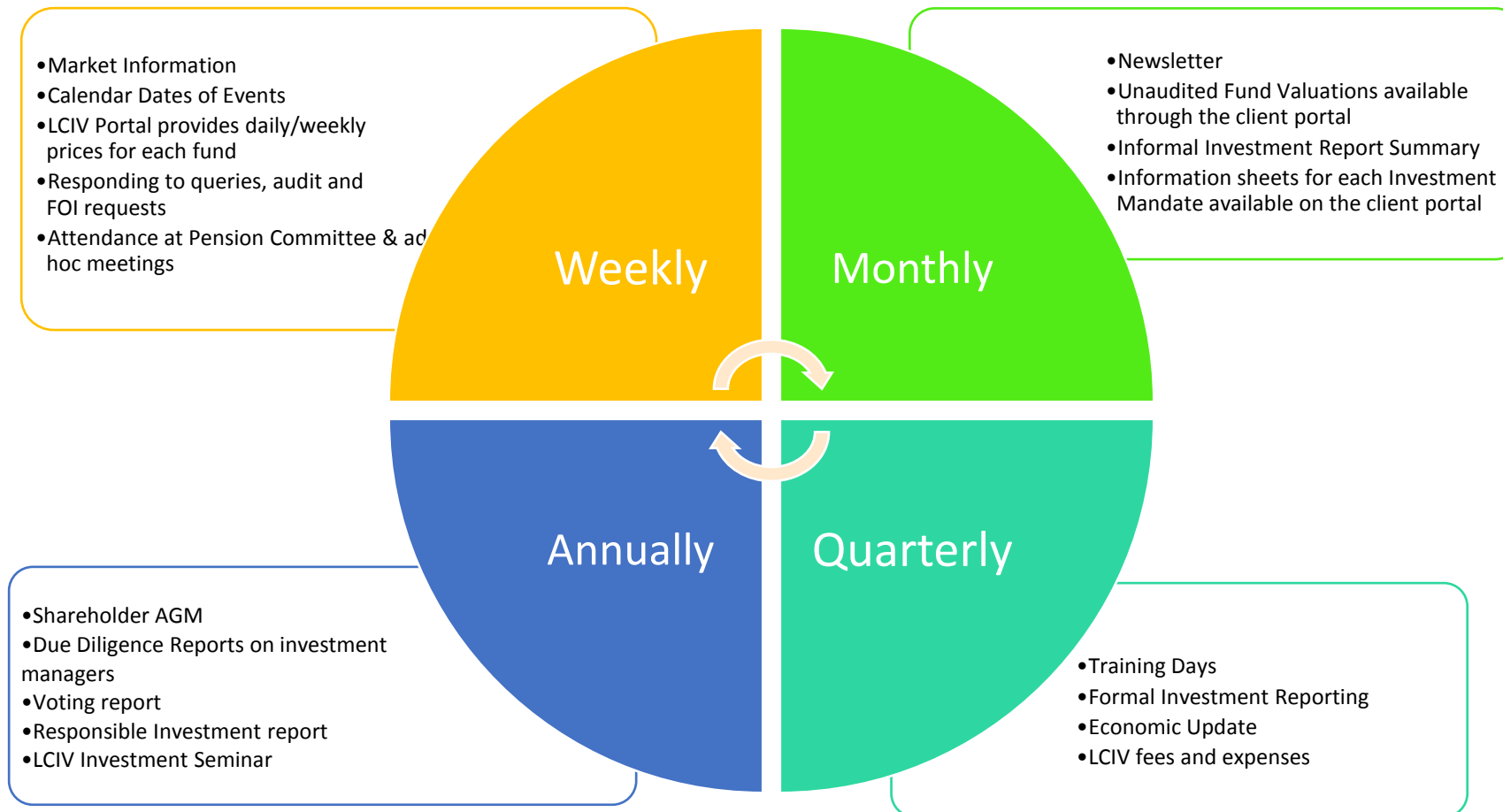
Market Review

- LCIV Investment team review of current market conditions, concerns and opportunities.



Client Engagement Model

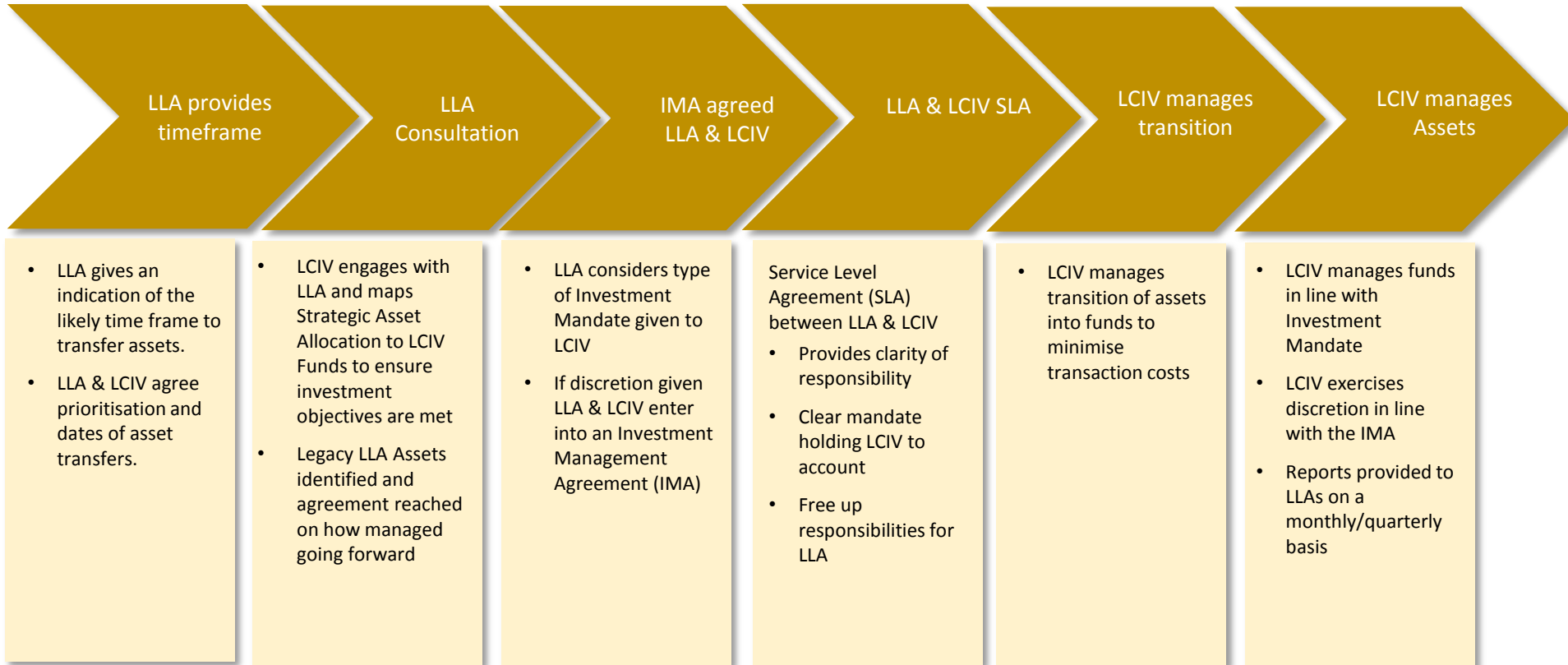
Named Client Relations Directors and Client Service Executives will be the principal London CIV contacts, who are available to respond to any queries, audits and FOI requests. They are available to attend Pension Committees and ad hoc meetings when required.



On-boarding Model – Client by Client



The diagram below illustrates the on-boarding process for an individual LLA. We anticipate repeating this process 32x, prioritised and planned in consultation with the LLAs as we identify early and later adopters.



For Professional Clients in the UK only

Cross Pool Open Forum - LPP's update on pooling

27 March 2018

About us



Investment management

(via LPPI¹, authorised and regulated by the Financial Conduct Authority)

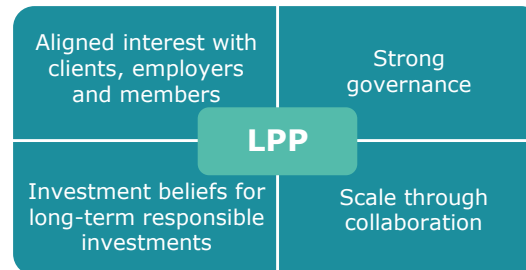


Asset and liability risk management



Pension administration

Our vision is to be **'a leader in pension services'** operating on a 'not-for-profit' philosophy and working in partnership with our clients and other customers



1. Local Pensions Partnership Investments Ltd.

Past performance is not an indicator of future performance. Investments may go down as well as up.

LPP at a glance

300+ employees

520,000+ pension fund members across LGPS, Fire and Police schemes

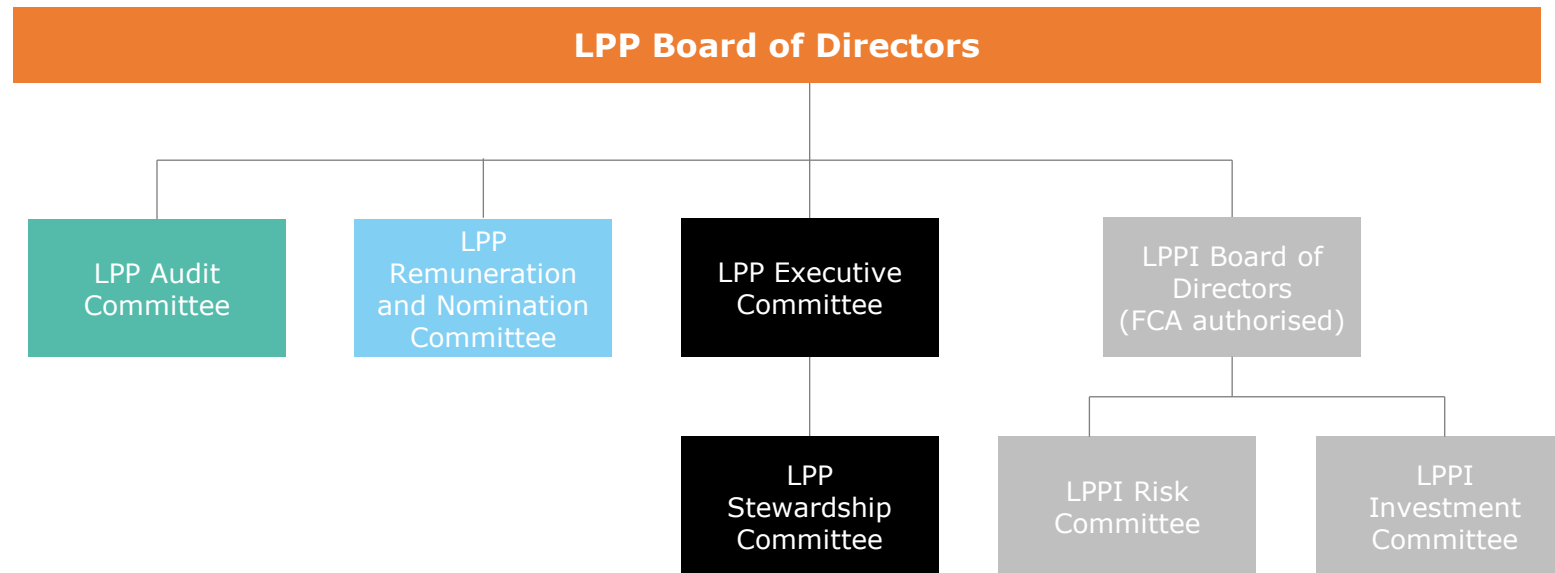
£13bn assets under management via LPPI, a fully-owned subsidiary authorised and regulated by the Financial Conduct Authority

27 investment, risk and actuarial professionals

Data as at 31 December 2017.

Past performance is not an indicator of future performance. Investments may go down as well as up.

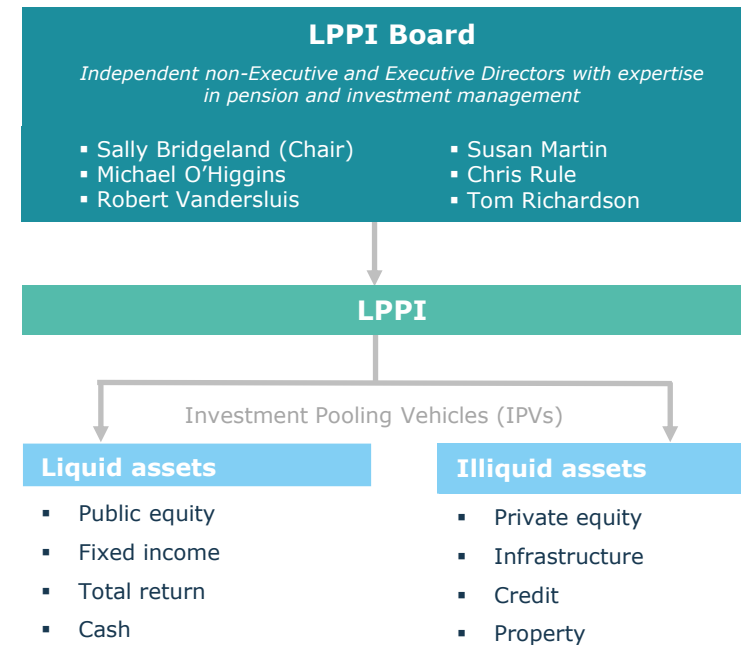
LPP Governance Structure



Past performance is not an indicator of future performance. Investments may go down as well as up.

LPP Investments Ltd (LPPI)

- Authorised and regulated by the Financial Conduct Authority (FCA)
- Signatory to the **LGPS Advisory Board Code of Transparency**
- Demonstrable success in designing and implementing asset pooling solutions and delivering cost saving benefits
- Expertise in building and running a variety of investment vehicles/structures including:
 - Authorised Contractual Scheme (ACS)
 - authorised/unauthorised Alternative Investment Funds (AIFs)
 - Limited Partnerships (LPs)
 - segregated accounts
- Independent Investment Operations function providing client/fund performance reporting
- Internal Compliance function providing investment governance and oversight
- 3rd party service providers (e.g. depositary/custodian) are subject to our rigorous on-going monitoring and service delivery and performance evaluation



Past performance is not an indicator of future performance. Investments may go down as well as up.

Investment management

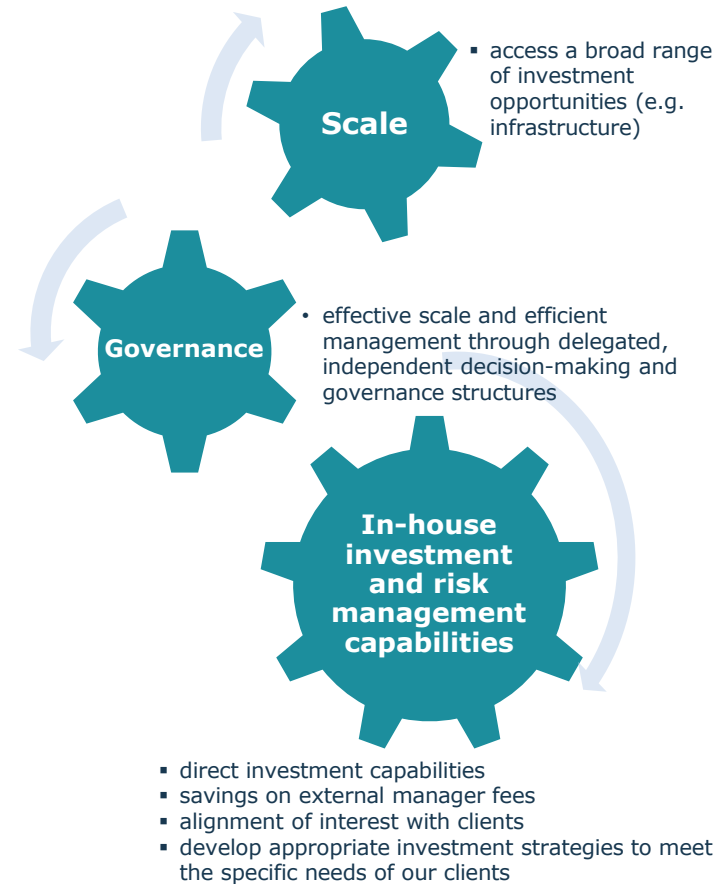
- LPPI's business model is built on our philosophy that we are here to help clients:
 - manage their assets and cash flows to meet their pension liabilities, both short and long-term
 - achieve their funding strategy goals through improved investment outcomes
- The three pillars of LPPI's model are: scale, governance and in-house investment and risk management capabilities
- Our approach focuses on:

'value-for-money' investments

- attractive risk-adjusted returns delivered cost-effectively
- responsible investments ensuring investment outcomes are stable and sustainable

greater collaboration

- larger scale and greater ability to negotiate preferential investment terms
- sharing/leveraging resources including investment pipelines



Past performance is not an indicator of future performance. Investments may go down as well as up.

Responsible investment (RI)

- LPPi is committed to the long-term responsible investment of pension assets
- Our primary focus is delivering optimum risk-adjusted returns on a sustainable basis, balancing the investment risks and opportunities
- LPPi Stewardship Committee (chaired by Chief Investment Officer) is tasked with developing and delivering a coordinated approach to stewardship and engagement across all our investments (both internally and externally managed portfolios)
- Our activities fall into three core areas:

informed investment	active ownership	collaboration
<ul style="list-style-type: none"> ▪ consider the long-term sustainability of the investment at every stage in the investment cycle ▪ integrate the analysis and evaluation of long term material financial risks and opportunities in our due diligence and investment decision-making processes 	<ul style="list-style-type: none"> ▪ actively promote sustainable business practices and high standards of corporate governance ▪ engagement through shareholding voting, direct representation on company boards or investor/advisory committees 	<ul style="list-style-type: none"> ▪ active collaboration and participation in a range of partnerships to strengthen our influence and/or share resources: <ul style="list-style-type: none"> ○ LGPS Cross-Pool Collaboration Group RI Sub-Group ○ Local Authority Pension Fund Forum (LAPFF) ○ UK Pension Fund RI Roundtable ○ Pensions and Lifetime Savings Association (PLSA) ○ ShareAction 'Workforce Disclosure Initiative' (WDI) ○ Transition Pathway Initiative (TPI) ○ 30% Club ○ Climate Action 100+

Past performance is not an indicator of future performance. Investments may go down as well as up.

Asset pooling

- MiFID II compliance implementation complete

Asset class	Launch date
Public Equities	October 2016
Private Equity	March 2017
Infrastructure	June 2017
Credit	September 2017
Fixed Income	February 2018
Total Return	Launching in Q2 2018
Property	Launching in Q3 2018

➤ **100% assets managed by LPPI**

➤ **75% assets within pooling vehicles²**

2. As at 28 February 2018.

Past performance is not an indicator of future performance. Investments may go down as well as up.

Important information

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This information may contain 'forward-looking statements' with respect to certain plans and current goals and expectations relating to LPP's future financial condition, performance results, strategic initiatives and objectives. By their nature, all forward-looking statements are inherently predictive and speculative and involve known and unknown risk and uncertainty because they relate to future events and circumstances which are beyond LPP's control. Any projections or opinions expressed are current as of the date hereof only.

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Northern Pool

LGPS Cross-pool forum – 27th March



Northern Pool

Comprises:

- Merseyside Pension Fund
- Greater Manchester Pension Fund
- West Yorkshire Pension Fund
- AUM £43bn at March 2017

Strategic Objectives

- Improve net investment returns of the funds in the Pool
- Enhance stakeholder engagement activities
- Facilitate increased investment in UK infrastructure
- Assist the Pooling Partners in ensuring continued compliance with the LGPS Investment Regs and the Pooling Guidance.

Benchmarking

- CEM Analysis carried out for funds and at Pool level
- Average pool cost of 0.45% over year to 31/3/17
 - Below peer group benchmark cost of 0.49%
- c80% of costs in respect of private market assets
- 5 year net value add for Pool of 0.8% p.a.
 - Roughly equivalent to £1.5bn

Key achievements

- Pool custodian appointed
- Operational direct infrastructure investment vehicle ('GLIL') alongside LPP
 - Commitments of £1.3bn, AUM of £600m
 - Open to other pools
- Northern Pool Private Equity vehicle operational April 2018

Infrastructure Investment

- Significant increase in allocation to infrastructure
 - (6.3% vs 1.6% 5 years ago)
- Target to finance 10,000 homes over 3 years

Oversight Arrangements

- Joint Committee oversees all aspects of the operation of the Pool's investment activity
- 2 members from each authority + 3 TU representatives
- Focus on performance & cost reporting and benchmarking
- Co-ordinating responsible investment activity

Wales Pension Partnership (WPP)

Clr Clive Lloyd

Chairman, City & County of Swansea Pension Fund

Member, Joint Governance Committee, WPP

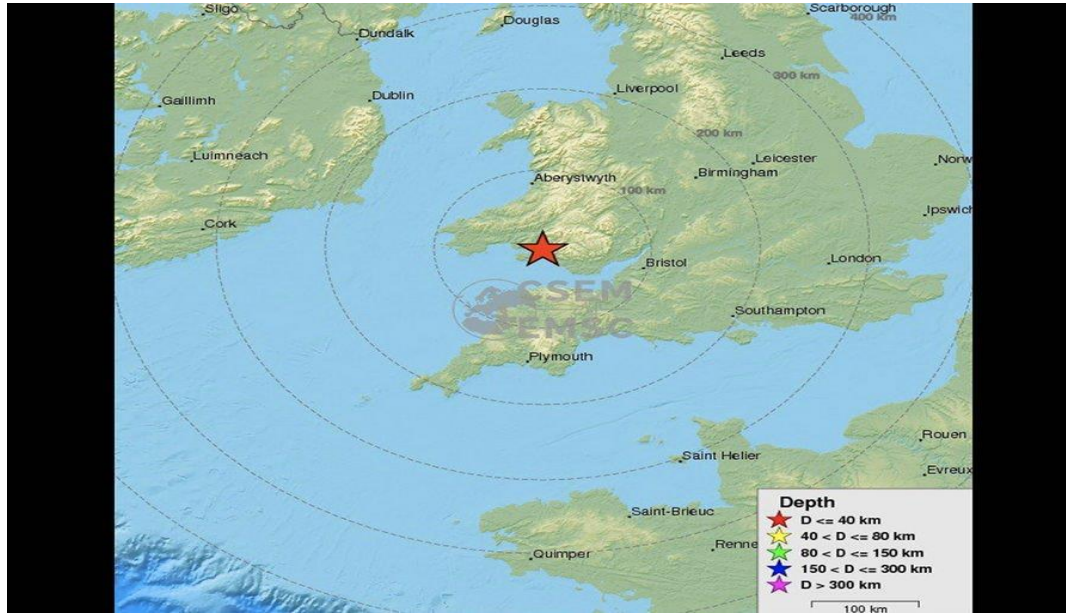
WLGAs Representative, Scheme Advisory Board



What's going on in Wales apart from Pooling?



Feb 2018, Earthquake reported in Wales ...



Tremor
measured 4.4
on the Richter
Scale

Early estimates
suggest there was
up to £45 worth of
damage

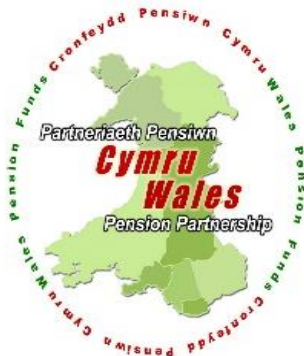


Awkward

Six Nations 2018

Pos.	Team	P	W	D	L	F	A	PD	Pts.
1	 Ireland	5	5	0	0	160	82	78	26
2	 Wales	5	3	0	2	119	83	36	15
3	 Scotland	5	3	0	2	101	128	-27	13
4	 France	5	2	0	3	108	94	14	11
5	 England	5	2	0	3	102	92	10	10
6	 Italy	5	0	0	5	92	203	-111	1

BBC SPORT



It was a Try !



Wales Pension Partnership - 8 Constituent Authorities

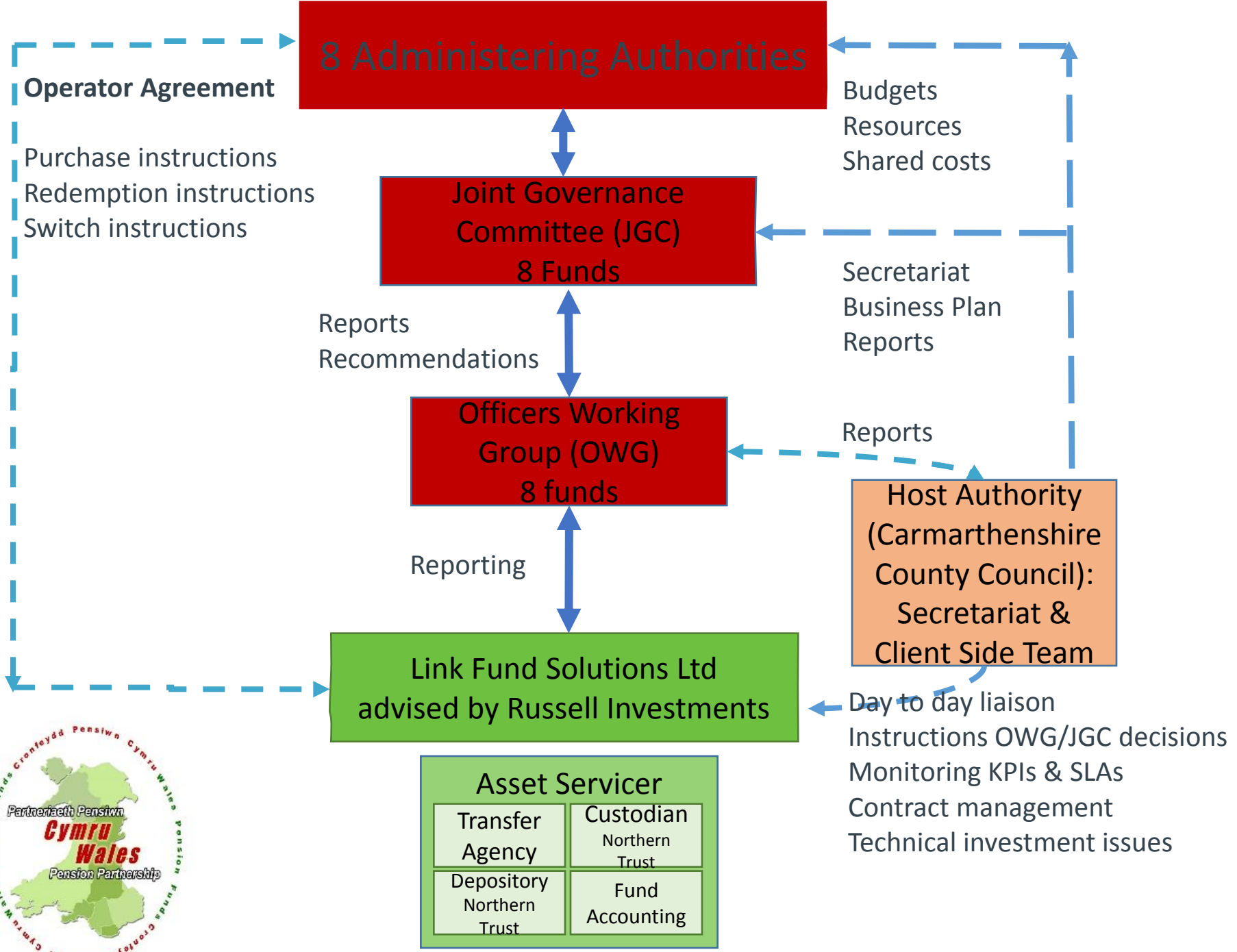


£16bn of assets under management

Wales Pension Partnership Model

- Keep it simple
- ‘Rent’ Model (as opposed to build)
- National Procurement Exercise
- Link Asset Services appointed as FCA Authorised ACS Operator
 - Depositary, custodian, reporting, FCA compliance, benchmarking, fund manager contracting.
- Russell Investments to work alongside Link to provide Investment advice, manager research, portfolio construction.





Operator Responsibilities

Core responsibilities

- FCA compliance, fund administration, all regulated functions and reporting, appoint and contract with fund managers, select and procure asset servicer, obtain FCA authorisation for funds, establish and operate vehicles, support the needs of investors

Establishment and Discretionary functions

- Advise on initial sub-fund structure, manager selections and recommendations, fee negotiations, transition management, enhanced performance reporting, training.



Joint Governance Committee Responsibilities

- Governance
- Monitor Operator relationship
- Strategic planning, resourcing plan, business plan and budget
- Approve addition of Sub-funds
- Value for money
- Implement common policies (e.g. ESG, stock lending/voting)
- Cross pool liaison
- Approve appointment of advisors and suppliers



Host Authority Responsibilities

- Secretariat to Joint Governance Committee (producing meeting papers, Translating papers in Welsh, providing translation services at meetings etc)
- Lead on procurement for pool services (e.g. advisers, etc.)
- Client side team for:
 - Operator contract management and co-ordination role
 - Monitoring performance of Operator against SLAs and KPIs
 - Day to day liaison with the Operator and its provider of Discretionary Services especially on matters affecting all funds / investors in the pool
 - Liaison with other advisers
 - Reporting Operator performance to the OWG and JGC
 - Other analysis, support and reports for the OWG and JGC as required.



Key Milestones And Progress To Date

- WPP Submission to Government approved
- Commitment to increase infrastructure investment by WPP
- Inter Authority Agreement signed March 2017
- Tender Exercise commenced May 2017
- WPP Governance established :
 - JGC and OWG
- ACS Operator appointed January 2018
- Global Equities sub funds (x2) structure and design finalised by OWG for recommendation to JGC April 2018
- Fund Prospectus submitted to FCA May 2018
- Transition of assets Q3 2018



Outcomes

- Meeting Government criteria
- Improving investment outcomes
- Improved terms on fund manager fees
- Increased investment in Infrastructure
- Shared Responsible Investment policies
- Sharing best practice, experience and know-how
- Develop local investment capabilities



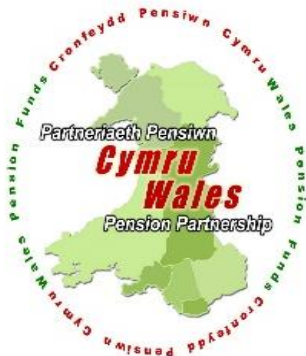
Diolch yn fawr – Thank you

Clr Clive Lloyd

Chairman, City & County of Swansea Pension Fund

Member, Joint Governance Committee, WPP

WLGAs Representative, Scheme Advisory Board



Open Discussion