



Local responsible investment

✓ **The Wales Pension Partnership (WPP), made up of the eight local authority pension schemes in Wales, recently approved a new responsible investment policy to ensure its investments are more environmentally friendly. Jack Gray speaks to Carmarthenshire County Council treasury and pensions investments manager, Anthony Parnell, about the pool's environmental, social and governance (ESG) investment agenda and long-term strategy**

Can you give an overview of the structure of the WPP?

Carmarthenshire County Council is the host authority for the Wales Pension Partnership (WPP). By host authority, we mean that we do the back office work, including the accounting, website, communications, media, arranging meetings etc. In my role as treasury and pension investments manager I manage the full-time staff

members for WPP.

Governance wise, we have a Joint Governance Committee (JGC), which is made up of the eight pension scheme chairs in Wales. It is the decision-making body. Then we have the Officer Working Group (OWG), which is made up of section 151 officers and practitioners from the eight funds. We have consultants on board; Hymans Robertson. Its contract has just been

renewed, so Hymans is our confirmed investment management consultant. It is in an oversight adviser role for the WPP.

We have Burges Salmon on board as our legal adviser, and the contract is up for renewal and will be re-tendered in the next few months. Link Fund Solutions is our operator. It provides the FCA-regulated platform, which the majority of our investments will

sit on. It has partnered with Russell Investments, which provides investment management services.

Russell Investments appoints the investment managers and undertakes due diligence. The JGC approves the sub-funds, following recommendations from Hymans, Link, Russell and the OWG.

How do the individual schemes operate within partnership?

One fund one vote. Regardless of the size of the pension scheme, each of the eight funds has its own vote.

Does the WPP conduct the investment strategy?

The actual investment strategy is done by each individual fund. Similarly to the other pools, each individual fund has kept responsibility for administration of the membership and investment strategy.

Each of the eight schemes has its own investment strategy. These are fed through to the pool and whatever the funds would like would be considered as part of the pool, in regards to asset allocations.

What is the WPP's new responsible investment policy?

This is the overarching umbrella responsible investment policy for the pool. Each individual fund has its own policy, but it is within the remit of the overarching policy. So it still gives each scheme their own local policy.

It says that funds should be looking at climate change and when we are looking at opening sub-funds that we need to consider ESG. We are not saying you have to adhere to something, but this is what has been approved by all eight funds within the JGC, but they can have their own individual local policies which feed into the pool.

Why did the WPP decide to enact this policy?

We felt that we needed a responsible investment for the pool itself because we are setting up sub-funds within the pool and we have to make sure that each of the sub-funds have their own ESG criteria within it. When Russell Investments appoints managers on our behalf, we inform Russell that we'd like them to look into the ESG criteria.

Was there any pressure from members or the industry?

I wouldn't say it was pressure, it's just good governance we feel. It isn't a tick-box exercise, it's taking ESG seriously. To have all eight funds sign up to it as quickly is pretty good we feel.

Have schemes within the pool been divesting from fossil fuels?

There are a few county councils that have committed to looking at it within Wales. A lot of councils are reviewing their fossil fuel investments now. I think others will follow suit, but it is within certain strict parameters how we deal with fossil fuel investments within our sub-funds. It's not an overnight quick-fix, easy win. It's about engagement and making sure that the managers we put in our sub-funds via Russell Investments have got good ESG criteria and strong focus on ESG, which is where it all starts really.

WPP was the first pool to appoint a pool operator. How was this decision made?

Link Fund Solutions is the pool operator; it is on a five plus two contract with us. It is the FCA-regulated vehicle and platform that investments sit on. We decided to go down this route rather than setting up our own company because we felt that due to the certain time constraints involved in pooling, we felt that this was the best option at that stage. We didn't have any in-house management of investments, so we felt that this was the best opportunity for us at the

beginning. But that's not to say that we won't revisit that in the future.

Also, we wanted to keep all of Wales' schemes together and we felt that this was the best way of doing that. We wanted to minimise costs as well. What we find is that the majority of the costs are all in one place with the operator.

What are the WPP's current plans?

We set up two global equity sub-funds in February 2019 and they are performing well at the moment. We set up a UK equity opportunities fund in September 2019 as well, and we are hoping to set up five fixed income sub-funds before the end of this financial year 31 March 2020.

We are transitioning our liquid asset classes first. A high percentage of our assets within the pool are equities and bonds so we're concentrating on them first of all. Liquid assets are more straightforward to pool, we wanted to reduce costs as quickly as we could and we thought that was the best way of doing it.

What are the pool's long-term plans?

We are looking at alternative investments at the moment. We have a private market sub-group set up which is made up of the pension fund practitioners in Wales. We're hoping to report back to the JGC during the calendar year 2020.

We are also looking at active emerging market equities and the rest of the regional active equities.

We have a communications policy and have set up a website and a LinkedIn page. We are holding workshops and training sessions for our JGC and officers. We're hoping to have over 60 per cent of our assets pooled by 31 March 2020, if everything goes to plan. Currently we are on track but there are a few months to go.

Written by Jack Gray