

Appendix 4 – FAQ Wales Pension Partnership: Fit for Future Business Case

What is the Wales Pension Partnership (WPP)?

The Wales Pension Partnership (WPP) is a collaborative arrangement representing all eight Local Government Pension Scheme (LGPS) funds in Wales. Established formally in 2015 (and structured in 2017), it was formed to create an investment pool for these funds, leveraging their existing close working relationships. The WPP has already achieved economies of scale, operational efficiencies, and improved investment outcomes for its member funds, while also focusing on identifying local investments and establishing responsible investment policies. As a pool for a devolved nation, it also considers the unique cultural and national characteristics of Wales and addresses regulatory obligations under legislation such as The Welsh Language Act and The Well-being of Future Generations (Wales) Act.

Why is the WPP proposing to establish a standalone FCA-regulated Investment Management Company (IM Co)?

The proposal to establish a standalone FCA-regulated IM Co is in response to the UK Government's "Fit for the Future" consultation (November 2024) and subsequent guidance. The consultation outlined minimum standards for LGPS asset pools, including the requirement for pools to be FCA-regulated investment management companies with the expertise and capacity to implement and advise on investment strategies. The WPP has thoroughly considered other options, such as merging with another English LGPS pool or becoming a client of one but concluded that building its own IM Co is the most effective and preferable approach to meet the Government's requirements while retaining crucial benefits for Wales and maintaining the unique collaborative culture within the WPP which exists today.

What are the key benefits the WPP sees in remaining a standalone pool and establishing its own IM Co?

There are many compelling benefits to remaining a standalone pool and establishing an IM Co., key amongst these being:

- 1) Dedicated resource working with public bodies and agencies in Wales to source, assess and manage local and impact investments, promoting economic growth and supporting communities in Wales.
- 2) In time, additional financial and governance benefits that are expected to exceed the additional costs of the new operating model. For example, we would expect an increasing range of portfolio management activities on listed and private market assets to be brought under in-house management over time, in line with Government expectations.
- 3) Immediate savings for administering authorities from transferring remaining investment implementation functions to the WPP IM Co, centralising reporting and centralising provision of strategic investment advice in the WPP IM Co (initially through competitive procurement of an external partner by the IM Co) and, in the longer term, greater savings by building an in-house advisory team.

4) Transferring components of the existing WPP pooling model to the new operating model (including existing pooled vehicle structures), continuing to benefit from the global scale and purchasing power of service delivery partners (currently including Russell Investments, Blackrock, GCM Grosvenor, CBRE, Schrodgers and Waystone). The IM Co will have the ability to review and replace service providers over time where it is felt that services can be managed in-house. A key driver for this would be to generate further efficiencies and obtain fee reductions through competitive procurement (in future a responsibility of the WPP IM Co).

5) Delivering the specific responsible investment goals of LGPS stakeholders in Wales. Examples of this is the development by Blackrock of a passive investment vehicle for WPP with a range of passive mandates specifically aligned to WPP's responsible investment policies and the bespoke WPP mandate for sustainable active equities managed by Russell Investments.

6) A unique opportunity to establish a centre of excellence in LGPS investment in Wales, creating career opportunities and enhancing the financial services sector in Wales.

7) From a practical perspective, continuing a standalone pool for Wales enables us to comply with regulatory obligations around The Welsh Language Act, The Well-being of Future Generations (Wales) Act and the distinct audit regime present in Wales.

8) The rationale for retaining a standalone LGPS pool for Wales is well documented in the business case submission. However, one of the key considerations was to avoid incurring unnecessary costs on transitioning to alternative pooling arrangements.

How does the WPP plan to establish the FCA-regulated IM Co by the March 2026 deadline?

The WPP has an implementation plan in place to establish the IM Co by the Government's deadline of end March 2026. This involves a structured project with external advisors and existing strategic delivery partners supporting administering authority officers. Key steps include:

- **Governance Pathway:** Securing necessary local governance approvals from each of the eight administering authorities.
- **Senior Hiring:** Prioritising the recruitment of key senior management roles for the IM Co, such as the CEO and Chief Risk Officer, ahead of the FCA application.
- **FCA Application:** Finalising and submitting the application for FCA authorisation, aiming for this to happen by September, supported by compliance consultants and legal advisors.
- **Procurement necessary to deliver the Target Operating Model:** Existing contracts will be transferred to the IM Co where possible, minimising disruption and expense. Additionally, IM Co will be undertaking new procurements for services like investment advice delivery partners, while leveraging existing relationships where possible and complying with procurement law.
- **Asset Transition:** WPP has analysed non-pooled assets and plans to transition them into existing or new pool solutions by March 2026, ensuring the vast majority of non-pooled assets are under pool management.

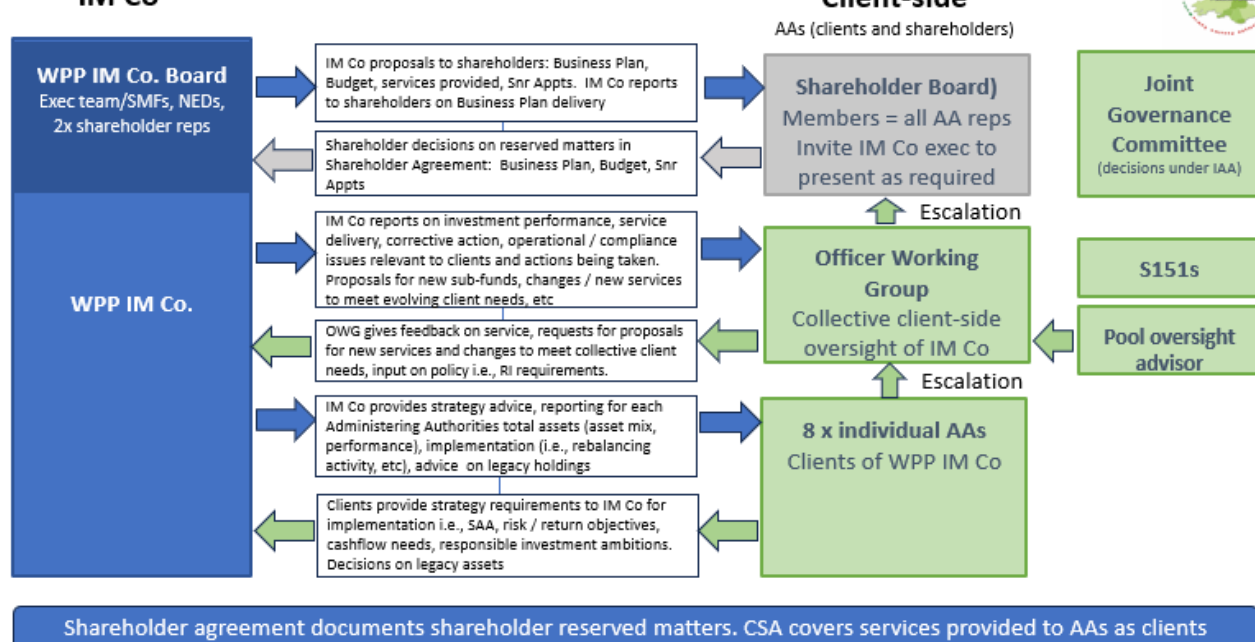
- **Board and Executives:** Establishing an IM Co Board to oversee the process and hire required Senior Management Function (SMF) executives to lead operational matters and front the FCA application until the "Go Live" date. To accommodate initial time pressures and key project dependencies (i.e., submitting an FCA application) it might be necessary to consider some interim appointments in both Board and executive capacities.
- **Further appointments:** Undertake further appointments necessary to ensure that the IM Co can operate from March 2026 as outlined in WPP's business case submission to Government.

How will the administering authorities maintain oversight and governance of the new WPP IM Co?

The new Target Operating Model will provide enhanced governance mechanisms, building on those already in place (Pension Committees, Pension Boards, Officer Working Group, Joint Governance Committee). In particular, a number of key decision matters will be reserved for a newly created Shareholder Board per the diagram below.

Membership of both the Shareholder Board and the IM Co Board is still to be determined. However, it is clear that all eight administering authorities will be represented on the Shareholder Board reflective of an existing oversight structure under current arrangements for WPP (i.e., member and officer oversight, pool oversight advisor). Shareholders will retain a 'one fund, one vote' entitlement as is the case under current arrangements.

Target Operating Model: IM Co & Client-side - Governance



The role of Pension Committees will continue to be integral, setting the investment strategy and requirements for implementation of the strategic asset allocation on behalf of their respective administering authority. Pension Committees will oversee the operation and performance of the

IM Co, ensuring that it performs in line with the shareholder agreement and individual administering authority objectives. The Chair of each Pension Committee will be represented on the Shareholder Board.

The Local Pension Board will retain its oversight and governance role of the administering authority, which is expected to extend to oversight of pooling arrangements and supporting the Pension Committee accordingly as a shareholder to the IM Co.

What services will the new WPP IM Co provide?

The WPP IM Co will provide a range of services to the administering authorities as its clients. These services will be delivered by dedicated teams within the IM Co and initially supported by external strategic delivery partners, with a view to increasing in-house capabilities over time. The planned services include:

- **Investment Advice:** Providing strategic investment advice to the administering authorities.
- **Strategy Implementation Services:** Implementing the strategy set by administering authorities (e.g. manager selection, rebalancing, cashflow management).
- **Local Investment Services:** Sourcing, assessing, and managing local investment opportunities within Wales and the wider UK.
- **Legacy Asset Management:** Managing identified legacy assets in line with administering authorities agreed mandate, ensuring they are under pool management from day one.
- **Other Services:** Including centralised production of reporting across all assets for each administering authority.

What are the expected costs associated with establishing and running the WPP IM Co?

The establishment of the WPP IM Co involves both set-up costs and ongoing running costs. The WPP has estimated a project budget of approximately £2.9 million for delivery of the project, covering legal advisors, specialist compliance support, investment consultants, and project managers, in addition to salary costs for IM Co personnel hired before March 2026.

The estimated additional annual running costs of the new operating model on Day 1 (March 2026) are projected to be £5-5.5 million after accounting for administering authority cost savings. These costs are expected to rise to around £8-9 million annually as the IM Co increases its in-house staff numbers (from around 16 on Day 1 to an expected 32 within 2-3 years).

In addition, Regulatory Capital of an estimated £5m – 10m will be required from the administering authorities.

How will the WPP IM Co deliver value for money?

The standalone IM Co model will deliver value for money through several mechanisms:

- **Continued Scale Benefits:** The IM Co will continue to benefit from the global scale and purchasing power of existing and new strategic delivery partners for services like fund operations and delegated investment management.
- **Increased In-house Management:** Over time, the WPP IM Co plans to take on an increasing number of portfolio management responsibilities in-house, which is expected to further reduce external partner costs and deliver additional cost savings.
- **Reduced Local Costs:** The new operating model will reduce administering authorities' local costs related to investment advice, reporting, and any remaining investment implementation activities as these functions are transferred to the IM Co.
- **Periodic Review of Service Providers:** The IM Co will have the ability to periodically review service providers to ensure best-in-market service delivery and competitive fees.
- **Overall Savings:** implementing the "Fit for the Future" proposals is projected to reduce external portfolio management costs to 34bps by 2030, representing annual savings of circa £25m by 2030.
- **Investment Performance:** as was the rationale for pooling back in 2016/17, strong investment performance over time is expected to outweigh additional costs of running the IM Co over time.

What are the WPP's longer-term aspirations beyond March 2026?

Beyond the immediate goal of meeting the Government's requirements by March 2026, the WPP has longer-term aspirations, particularly looking towards 2030 and beyond:

- **Enhanced In-house Capabilities:** The WPP IM Co aims to further enhance its operating model by developing increased in-house portfolio management capabilities for both listed and private market assets. This will involve increasing the size and expertise of the IM Co team, potentially doubling personnel within the first 2-3 years and hiring additional portfolio managers and a Head of Responsible Investment.
- **Leadership in Local and Impact Investment:** The WPP has ambitions to become a leader in local and impact investment, actively engaging and collaborating with other LGPS investment pools on UK investment opportunities.
- **Reduced Reliance on External Partners:** Over time, the WPP expects to reduce the use of strategic investment partners for investment implementation and investment advice services as in-house capacity and resilience are built.
- **Detailed 5-Year Plan:** Once the WPP IM Co is established, its senior management team will develop a more detailed 5-year plan for the Shareholder Board, prioritising the development of the operating model to achieve the greatest value.