

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 31 st August 2022
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

EXECUTIVE SUMMARY

An investment and funding update is on each quarterly Committee agenda.

There are separate agenda items on asset pooling in Wales, investment performance and the funding and flight path risk management framework. This update includes matters that are mainly for noting, albeit comments are clearly welcome.

This update also includes the first reports provided by Wales Pension Partnership (WPP) on stock lending, voting and engagement, and these will be provided on an ongoing basis as part of this update.

This report provides updates on the following items:

- Triennial Actuarial Valuation Process (1.02)
- The Business Plan 2022/23 – the majority of projects are currently on track. F5 which relates to expected LGPS consultation(s) on investment matters is delayed awaiting the consultation exercise which was originally expected in the summer.
- Risk register - there have been a number of changes to the risk register this quarter, primarily as a result of the persistently high inflationary environment which poses increasing financial risks to the Fund.
- Delegated responsibilities – this details the delegated responsibilities which have been completed by officers since the last Committee meeting.

RECOMMENDATIONS

1	That the Committee consider and note the update, and provide any comments.
---	--

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2022/23. Key tasks are currently on target and key points to note are as follows:</p> <ul style="list-style-type: none">• F1 (Funding Strategy Statement Review and Triennial Actuarial Valuation) – the Actuarial Valuation process for 31st March 2022 is continuing. 1.02 provides more details• F2 (Review of Investment Strategy) – This has now commenced (in tandem with the Actuarial Valuation results). A training session for members has been scheduled for 5th October 2022.• F4 (UK Stewardship Code) – This is covered in agenda item 5• F5 (LGPS Investment Related Developments) – This is delayed as the consultation(s) that were due prior to the summer have not as yet been issued. The business plan has been updated to extend this item into quarter four given the delay.
1.02	<p>Current Development and News</p> <p><i>2022 Actuarial Valuation</i></p> <p>The 2022 actuarial valuation is now underway, with membership data provided to the Actuary at the start of July. The Actuary raised initial data queries with the Fund and the Fund have responded to them.</p> <p>Overall the data quality was excellent and showed the continuing progress made by the administration team. As part of the valuation more detail will be fed back to improve the data quality further when capacity allows in the team.</p>
1.03	<p>The next stages of the actuarial valuation process will see:</p> <ul style="list-style-type: none">• The Actuary progressing the next phase of the calculations with a view to discussing the initial results with the Fund during mid-September.• The demographic report will be provided, with the outcomes incorporated into the calculations.• A steering group meeting with the county and borough Councils will take place in September to discuss the initial outcomes.• The initial results and draft Funding Strategy Statement (FSS) will be reported to Committee at the November meeting for approval for formal consultation with employers. A training session for Committee and Board on the Valuation and FSS took place on the 24th August in preparation for the next stages.• As part of the consultation process, the employer results and contribution outcomes will be communicated. The consultation process will commence after the November committee meeting and will be discussed further at the AJCM in December. The outcome of the consultation process will be reported to Committee at the

	<p>February 2023 meeting for approval of final FSS.</p> <p>The final valuation results, Actuary's formal report and employer contributions' schedule will be agreed no later than 31 March 2023 (the legal deadline) with new contributions being implemented on 1 April 2023.</p>
1.04	<p><i>Wales Pension Partnership (WPP) Responsible Investing Update</i></p> <p>The Fund's key priorities with in its Responsible Investment (RI) policy included enhanced reporting on RI matters. The Committee have asked to receive information on voting, engagement and stock lending.</p>
1.05	<p><u>Voting and Engagement</u></p> <p>As an asset owner, there are opportunities to engage with companies, and also vote at Annual General Meetings, with a view to helping improve company policies in relation to environmental, social and governance matters. As WPP own stocks on behalf of the Constituent Authorities (including Clwyd Pension Fund), they carry out voting and engagement on their behalf.</p> <p>WPP have appointed Robeco as the Voting and Engagement provider. The Deputy Head of the Clwyd Pension Fund, as part of the WPP RI Sub Group, has been working with Robeco to create suitable reports for Constituent Authorities showing the voting and engagement that has taken place. Appendices 2 to 4 of this Update includes the first of these reports but work is ongoing to further enhance them.</p>
1.06	<p>Appendix 2 highlights the engagement work that has been carried out on behalf of WPP from April to June 2022. This quarter provides information and case studies on the following areas of engagement:</p> <ul style="list-style-type: none"> • Net Zero Emissions • Good Governance • Single Use Plastics • Digital Innovation in Healthcare • SDG Engagement • Proxy Voting <p>It is important to note that the lists of stocks in the engagement report are for the WPP as a whole and may or may not be in sub funds the Clwyd Pension Fund is invested in. This is one of the areas of enhancement that is ongoing.</p> <p>Appendices 3 and 4 provides summary details for the proxy voting reports for the Global Opportunities and Emerging Market Equity Funds in which the Fund is invested. The reports cover the number of meetings and votes cast for the period to June 2022 and some of the voting highlights.</p>

1.07	<p><u>Securities Lending</u> Securities lending involves the owner of shares or bonds transferring them temporarily to a borrower. In return, the borrower transfers other shares, bonds or cash to the lender as collateral and pays a borrowing fee. Stock lending can, therefore, be used to incrementally increase fund returns for investors.</p> <p>WPP have appointed Northern Trust to lend securities, which are held within the WPP sub-funds, on their behalf.</p>
1.08	<p>Agenda item 9 is the exempt Global Securities Lending Relationship and Performance Review for the year to March 2022. The report provides details of all the sub funds operated by WPP.</p> <p>Page 6 provides a summary of the lending programme between Northern Trust and WPP which commenced in March 2020. Pages 8 to 10 cover key market trends and observations. Performance of the mandate is shown on page 12 with revenue analysis following.</p> <p>Total revenue received for WPP for 2021/22 was £1.1m. Clwyd Pension Fund is only invested in the following 3 sub funds participating in the programme and received £48k split below (which is in addition to any investment return on these securities):</p> <ul style="list-style-type: none"> • Global Opportunities (GO) £24k (4% of total) • Emerging Markets (EM since October 2021) £5k (47% of total) • Multi Asset Credit (MAC) £19k (34% of total) <p>As at 31 March 2022, the values of securities on loan relating to the Clwyd pension Fund was £16.7m; the total assets with WPP were £596.6m. The WPP total securities on loan was £430.7m.</p> <p>Page 15 provides a breakdown of revenue by account of which the following are relevant to the Clwyd Fund:</p> <ul style="list-style-type: none"> • WCOF08 LF WALES PPGOEF • WMAC03 LF WALES PP MAC – BARINGS • WMAC05 LF WALES PP MAC – GLG • WMAC02 LF WALES PP MAC – BLUEBAY • WMAC04 LF WALES PP MAC – VOYA • WPPE03 LF WALES PP EM RUSSELL <p>Page 19 highlights the top 10 revenue generating securities. These are currently not split between individual sub funds but work is ongoing with the RI Sub Group and Hymans to investigate these in more detail. During 2021/22, the Clwyd Fund held 9 of the top 10 stocks in 1 or more of its sub funds.</p>
1.09	<p><u>Roles and responsibilities</u> The role of monitoring the engagement, voting and stock lending carried out by Robeco and Northern Trust on behalf of WPP lies with the WPP Joint Governance Committee (JGC), rather than the Clwyd Pension Fund</p>

	Committee. However WPP's role is to deliver the RI policies of all the Constituent Authorities.						
1.10	<p>2016 Cost Management Process</p> <p>GAD has published its report on the 2016 scheme valuation which calculates the cost cap cost of the scheme using HM Treasury's valuation directions, as at 31st March 2016. The report concludes that the costs of the scheme were 1.2% below the target cost, meaning no action is required to be taken as there is no breach of the 2% corridor.</p>						
1.11	<p>Policy and Strategy Implementation and Monitoring</p> <p>The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the existing approved Investment Strategy, as well as reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 11.</p> <p>The Advisory Panel also receive reports from the following Clwyd Pension Fund officer/adviser working groups:</p> <ul style="list-style-type: none"> • Tactical Asset Allocation Group (TAAG) • Cash and Risk Management Group (CRMG) • Private Equity and Real Assets Group (PERAG) <p>Any decisions arising from these meetings which have been agreed using delegated responsibilities are detailed in Appendix 5.</p>						
1.12	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 5 updates the Committee on the areas of delegation used since the last meeting. To summarise:</p> <ul style="list-style-type: none"> • Cash-flow forecasting continues to be monitored through the Cash and Risk Management Strategy. • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • The following commitments to private market investments have been made in line with the Fund's Investment Strategy and recommendations from Mercer, the Fund Consultant; more details are provided in 1.14. <table border="1" data-bbox="304 1823 1369 1975"> <thead> <tr> <th>Asset Class</th> <th>Fund</th> <th>Commitment</th> </tr> </thead> <tbody> <tr> <td>Infrastructure</td> <td>Copenhagen Infrastructure Partners Energy Transition Fund I</td> <td>€20m (£17m)</td> </tr> </tbody> </table>	Asset Class	Fund	Commitment	Infrastructure	Copenhagen Infrastructure Partners Energy Transition Fund I	€20m (£17m)
Asset Class	Fund	Commitment					
Infrastructure	Copenhagen Infrastructure Partners Energy Transition Fund I	€20m (£17m)					

1.13	<p>Private Market Allocations</p> <p>As reported to previous Committees, due to the WPP currently running a tender for Allocators to implement private markets, Mercer as the Fund's investment consultant have been working with officers to determine the Fund's requirements for infrastructure and private debt in addition to private equity and impact opportunities until they are transitioned to WPP. This work includes identifying potential managers on a sustainable basis.</p>
1.14	<p>As part of this process, Mercer share relevant reports on their research views and full due diligence on any recommended managers for the Fund officers to consider and discuss. From there, meetings are conducted with the recommended managers and Fund officers to discuss the mandates in more detail and facilitate any further information the Fund may require. The Fund and Mercer continue to be busy considering new allocations for 2022/23. A brief summary of the first allocation for this year is shown below, which is a manager that has been highly rated by Mercer including ESG credentials.</p> <p>Copenhagen Infrastructure Partners Energy Transition Fund I AN Infrastructure manager raising €3bn, focussed on second generation renewable energy and hard to abate sectors such as industrial processes, shipping, fertilisers and aviation fuel.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>Due to three post vacancies in the Fund's Finance Team (out of a total of seven), a proportion of the work of the team has been outsourced to the Fund's consultants. This is a temporary measure until the posts are filled. It is hoped to start the recruitment for at least two of these posts (Principal Accountant and Governance & Business Support Officer) very soon as this was put on hold whilst the annual report and accounts was being prepared. It is critical these posts are filled in the near future due to the large proportion of vacancies in this team.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>None directly as a result of this report, albeit consultation on updates to the Funding Strategy, and perhaps the Investment Strategy, will be carried out during 2022/23.</p>

4.00	RISK MANAGEMENT
4.01	<p>Appendix 6 provides the dashboard and risk register highlighting the current risks relating to investments and funding matters.</p>
4.02	<p>There have been no additional risks added to the register since the last Committee but there are a number of changes to the current risks:</p>

	<ul style="list-style-type: none"> • F4 Value of liabilities increasing due to market yields/inflation increasing out of line from actuarial assumptions - The likelihood for F4 has increased by one from Low to Significant, as the level of inflation means that the value of the liabilities are likely to increase at a higher rate than previously assumed. • There is a knock on effect to F3 and F2, and both of these have also had the likelihood increased from Low to Significant: <ul style="list-style-type: none"> ○ F3 is that investment targets are not achieved, therefore materially reducing solvency / increasing contributions. The Fund's investment return targets built into the funding strategy are related to inflation, with inflation running at c.9.4% (at the time of writing) there is a higher likelihood that over the short term investments will fail to keep pace ○ F2 relates to the funding level reducing, increasing any deficit or reducing any surplus. This has also seen its likelihood increase due to a combination of F3 & F4 being increased. • F8 relating to the risk of employers ceasing to exist, resulting in loss of employer income or other employers becoming liable for their deficits - the likelihood has been reduced from very low to unlikely as the Fund's policies and experience over COVID 19, where there were no issues with employers, has meant that this risk has been reduced.
--	---

5.00	APPENDICES
5.01	Appendix 1 – 2022/23 Business plan Appendix 2 – WPP Engagement Report Q2 2022 Appendix 3 – WPP Global Opportunities Summary Voting Q2 2022 Appendix 4 – WPP Emerging Market Equity Summary Voting Q2 2022 Appendix 5 – Delegated Responsibilities Appendix 6 – Risk dashboard and register – Investments and Funding Agenda item 9 – Exempt appendix – WPP Global Securities Lending Review

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None. Contact Officer: Debbie Fielder, Deputy Head, Clwyd Pension Fund Telephone: 01352 702259 E-mail: Debbie.a.fielder@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) The Fund - Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the

region

- (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.
- (c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund
- (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.
- (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.
- (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund’s Investment Consultant and monitored by AP.
- (g) **In House Investments** – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.
- (h) **WPP – Wales Pensions Partnership** - The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. WPP has appointed an Operator to manage assets collectively for the eight Wales LGPS funds. A proportion of the Clwyd Pension Fund assets are invested via WPP.
- (i) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (j) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (k) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (l) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and

Investment Advisor.

(m) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

(n) **Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.

(o) **Department for Levelling Up, Housing & Communities (DLUHC)** – supports communities across the UK to thrive, making them great places to live and work.

A full glossary of Investments terms can be accessed via the following link.

<https://www.schroders.com/en/uk/adviser/tools/glossary/>