

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 21 June 2023
Report Subject	Asset Pooling
Report Author	Deputy Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the work undertaken by the Wales Pension Partnership (WPP) with pooling investments in Wales.

There was a hybrid WPP Joint Governance Committee (JGC) on 29 March 2023 held in Gwynedd County Council Offices. The draft minutes are appended for information which included the approval of the WPP Business Plan 2023-2026.

This agenda item includes:

- a presentation from the WPP Operator and Investment Management Solution Provider
- confirmation that future Private Market investments will be made through WPP
- proposed updates to the Delegation of Functions to Officers.

The Head and Deputy Head of Clwyd Pension Fund continue to assist the Host Authority (Carmarthenshire County Council) and the WPP Oversight Adviser (Hymans Robertson) with their respective roles, as well as representing the interests of the Clwyd Pension Fund on the Officer Working Group and various WPP sub-groups.

RECOMMENDATIONS

1.	That the Committee approve the additional WPP objective within the WPP Business Plan 2023/24 to 2025/26.
2.	That the Committee approve the updated Delegation of Functions to Officers to: <ul style="list-style-type: none"> • recognise WPP's role in relation to investments within the pool, and that Officer delegations are limited to investments outside of WPP • change the delegation for Voluntary Scheme Pays Policy to be consistent with other administration policies.
3.	That the Committee note and discuss the update and agree any comments or questions for WPP.
4.	That the Committee receive a presentation from the WPP Operator and Investment Management Solution Provider.

REPORT DETAILS

1.00	Pooling Investment in Wales
1.01	<p>Joint Governance Committee (JGC)</p> <p>There was a WPP JGC on 29 March 2023. The draft minutes of that meeting are attached (Appendix 1).</p> <p>In summary the JGC considered or approved the following:</p> <ul style="list-style-type: none">• An update from the Host Authority.• The WPP Training Plan 2023/24.• The WPP Business Plan 2023/24. (See para 1.02)• A risk register review which this quarter considered seven of the Governance and Regulation risks.• The annual review of the WPP Governance Matrix - following this review, the matrix has been updated to reference the relevant sections of the Inter Authority Agreement (IAA).• An update from the Operator including the assets within the pool which are £15.1bn (including passive investments) as at December 2022. The JGC also received an update on the current organisational issues relating to Link Fund Solutions Ltd.• An update on investment performance as at 31 December 2022. The relevant funds from a Clwyd Pension Fund point of view are the Global Opportunities Equity Fund (invested since February 2019), Multi Asset Credit Fund (Invested since August 2020) and the Emerging Market Equity Fund (invested since October 2021). The Global Equities Fund was ahead of benchmark at that date, but the Emerging Market Equity and Multi Asset Credit Funds remained behind their relevant benchmarks since inception. <p>Further information on the above is available in the full public agenda which is available here.</p> <p>There were a further three items for which the public were excluded:</p> <ul style="list-style-type: none">• The Stock Lending Report was noted.• The quarterly Engagement report was received from Robeco.• Responsible Investment and Climate Risk reports were noted for the following sub funds:<ul style="list-style-type: none">• UK Credit• Global Credit• Global Government Bonds.

1.02	<p>WPP Business Plan 2023 - 2026</p> <p>The WPP Business Plan for 2023 – 2026 was approved on 29 March 2023 by the Clwyd Pension Fund Committee, including the objectives of the Pool and the budget. However, this was subject to it also being recommended at the WPP JGC on 29 March 2023 and approved by the other Constituent Authorities. At the 29 March 2023 JGC, there was a recommendation to include a further WPP objective, related to responsible investment, which was agreed.</p> <p>The Committee are now asked to approve the additional objective within the WPP Business Plan which is as follows:</p> <p><i>“To embed the delivery of long-term, sustainable investment outcomes into decision making, through capital allocation, the ongoing scrutiny of asset managers, and the exercise of the rights and responsibilities that arise as asset owners.”</i></p>
1.03	<p>Officer Working Group & Sub-Groups</p> <p>The Deputy Head of Clwyd Pension Fund attends the Private Market sub-group and Responsible Investment (RI) sub-group. These are both complex areas and important for the Clwyd Pension Fund because 29% of our assets are in private markets and because of the ambitions within the Fund’s Responsible Investment including the Climate Risk objectives. The Head of Clwyd Pension Fund attends the quarterly meetings of the Risk sub-group. Both the Head and Deputy Head of Clwyd Pension Fund attend the Procurement (of the Operator contract) sub-group. All four groups report back to the Officer Working Group</p> <p>An update was provided by WPP’s Oversight Adviser and the Host Authority to the Officer Working Group on 23 May 2023 on the work of these groups and other matters. The main items for discussion in line with the WPP Business Plan were:</p> <ul style="list-style-type: none"> • An update on the plans for the launch of the Sustainable Active equity sub fund which has now been agreed for June 20 /21 2023. • An update on the Operator contract procurement. • Reports from Link/Russell on investments and performance. • Review of the further Governance and Regulation items on the risk register. • An RI sub-group update. • Reviews of several of the WPP Sub Funds. <p>Appendix 2 details the latest update received from WPP in relation to the Link Group sale of the Fund Solutions business and the settlement with the Financial Conduct Authority (FCA). This has previously been shared with the Committee by email on 2 May 2023. Any further updates on the sale of Link Fund Solutions will be shared when they become available.</p> <p>The WPP provides training for officers, JGC and constituent authority</p>

	<p>committee and board members. There was a training session on 8 June which covered Private Markets and Levelling Up. There are further sessions planned, the next being in September which we will share with the Committee when further details are known.</p>
<p>1.04</p>	<p>Private Markets Update</p> <p>Further to the appointment of the WPP Allocators for Infrastructure, Private Equity and Private Credit, arrangements are underway for the first investments to be made. GCM Grosvenor, as the WPP Infrastructure allocator, have committed and deployed capital to two direct projects in Wales, one having three sites, the other having extensive operations in Wales. The Private Equity sub-group is currently working with bFinance to agree the tender specification documentation for the Property tender process which will commence later in the year.</p> <p>Previously for the Clwyd Pension Fund, all decisions in relation to investments into Private Market mandates and the selection, appointment and dismissal of Fund Managers were delegated to the Head of the Clwyd Pension Fund and either the Corporate Finance Manager or Corporate Manager – People and Organisational Development.</p> <p>This is not the case where mandates are appointed by the WPP and their Managers / Allocators. It is therefore proposed that the Delegation of Functions to Officers be updated to clarify that Officer delegations in relation to:</p> <ul style="list-style-type: none"> • the selection, appointment and dismissal of Fund Managers and • investments into new mandates/emerging opportunities, <p>are limited to investments outside of WPP.</p> <p>It is also proposed to update the delegation for Voluntary Scheme Pays Policy to be consistent with other administration policies (as referred to in the Administration and Communications Update report).</p> <p>The proposed updates are highlighted in Appendix 3 and the Committee is asked to approve these.</p>
<p>1.05</p>	<p>Responsible Investment Update</p> <p>The RI sub-group have met three times since last reported to the Committee; in February, April and May 2023. The next meeting is on 11 July 2023. The main areas of discussion at the previous meetings were:</p> <ul style="list-style-type: none"> • An update on the All-Wales WPP Climate Report (explained further below). • Climate risk and ESG reports for the WPP Global Growth and Global Opportunities Equity funds and the UK Credit, Global Credit and Global Government Bond funds. • A failed engagement process, securities lending and a review of

	<p>LAPFF voting.</p> <ul style="list-style-type: none"> • Annual progress update of RI and Climate Risk policies. • Discussions around requirements for the new quarterly RI template for OWG and individual Constituent Authorities (explained further below). • RI training requirements for the OWG and JGC. <p>Hymans Robertson, as the Oversight Advisor to WPP, are producing an all-Wales WPP climate report for the RI sub-group. This work is progressing. Data cleansing has taken considerable time but is now largely completed and it is expected that the initial report will be available in June 2023.</p> <p>Hymans Robertson are also working on a quarterly Responsible Investment Update for the OWG and Constituent Authorities. The purpose is to share details of recent activity across the WPP in addition to activity and information on each Sub-Fund. Areas which may be covered are:</p> <ul style="list-style-type: none"> • Voting policy updates • Stewardship framework/ process • LAPFF alerts • Stock Lending • All Wales WPP Climate Change Report • Stewardship Code reporting • Reporting on WPP Sub-Funds - The key metrics to be included for each Sub-Fund may include: <ul style="list-style-type: none"> • Climate metrics • ESG metrics • Top 10 holdings • Voting summary with details of key votes • Engagement summary with current progress <p>The report should be available for inclusion in the Clwyd Pension Fund Committee papers for 30 August 2023.</p>
1.06	<p>Operator Contract Procurement Update</p> <p>The procurement for the Operator Contract is progressing and at the OWG meeting on 23 May 2023, officers were asked to discuss and agree the evaluation scoring criteria for the JGC on 19 July 2023 to recommend to individual Constituent Authorities.</p> <p>The approval of any evaluation or scoring criteria for any procurement of a replacement Operator is a matter reserved to the Constituent Authorities so this will be brought to the 30 August 2023 Committee for Members’</p>

	approval.
1.07	<p>WPP Sustainable Global Equity Transition Update</p> <p>The Fund is currently in the process of transitioning assets from the Global Opportunities Equity Fund to the Sustainable Global Active Equity Sub-Fund (see agenda item 9). As a reminder, the Sustainable Equity Fund will not be permitted to hold stocks in the following categories:</p> <ul style="list-style-type: none"> • Thermal Coal • Controversial Weapons • Oil Sands, Artic Oil & Gas, Shale Energy • Tobacco, Gambling, Adult Entertainment • Palm Oil • Breaches of UN Global Compact.
1.08	<p>Presentation from the WPP Operator and Investment Management Solution Provider</p> <p>Appendix 4 is the presentation from the WPP Operator, Link Fund Solutions and the Investment Management Solution Provider, Russell Investments.</p> <p>The presentation will cover:</p> <ul style="list-style-type: none"> • An overview from Link Fund Solutions on their role and the current sale of the Fund Solutions business. • An update from Russell Investments to cover: <ul style="list-style-type: none"> • Performance and overview of current Sub-Funds. • Overview of the Sustainable Global Active Equity Fund. • Where Next?

2.00	RESOURCE IMPLICATIONS
2.01	There is considerable time allocated by the Head and Deputy of the Clwyd Pension Fund in delivering and monitoring the WPP Business Plan which is not separately recognised in the Clwyd Pension Fund budget; however it does result in greater reliance on external advisors on local matters than would otherwise be the case.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	<p>How the Wales Pension Partnership operates is key in enabling the Fund to implement its investment strategy. If performance is not in line with the assumptions in the Fund's strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations. In addition, further guidance on pooling is expected from Department for Levelling Up, Housing and Communities (DLUHC) shortly and the implications of that guidance are not yet known.</p> <p>The WPP risk register is included in the JGC agenda. The focus for the quarter to December 2022 was some of the Governance and Regulation risks. The remainder will be covered in the next quarter. Of the seven risks covered, five were on target.</p> <p>The two risks currently behind target are:</p> <ul style="list-style-type: none"> • WPP fails to adhere to its pre agreed budget, and • WPP 's Operator fails to deliver on its contractual obligations or stops providing Operator services due to exiting the market or regulatory restrictions. <p>The Head of Clwyd Pension Fund attends the WPP Risk sub-group.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – JGC 29 March 2023 draft minutes.</p> <p>Appendix 2 – Link Update April 2023.</p> <p>Appendix 3 – Delegation of Functions to Officers with proposed changes.</p> <p>Appendix 4 – Presentation from the WPP Operator and Investment Management Solution Provider.</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<ul style="list-style-type: none"> • Earlier Committee reports on the progress of the WPP. <p>Contact Officer: Debbie Fielder, Deputy Head of Clwyd Pension Fund Telephone: 01352 702259 E-mail: Debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(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</p> <p>(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</p>

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) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (e) **Inter-Authority Agreement (IAA)** – the governance agreement between the eight Wales pension funds for purposes of pooling
- (f) **Wales Pension Partnership (WPP)** – the name agreed by the eight Wales pension funds for the Wales Pool of investments
- (g) **The Operator** – an entity regulated by the FCA, which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link Fund Solutions Limited.
- (h) **Financial Reporting Council (FRC)** – an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants, and actuaries, and setting the UK’s Corporate Governance and Steward.
- (i) **Financial Conduct Authority (FCA)** – The Financial Conduct Authority (FCA) regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.
- (j) **Department for Levelling Up, Housing and Communities (DLUHC)** – The Department for Levelling Up, Housing and Communities supports communities across the UK to thrive, making them great places to live and work.