

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 15 th June 2022
Report Subject	Asset Pooling and WPP Business Plan 2022 - 2025
Report Author	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 including the WPP Business Plan 2022 -2025, for approval.

There was a WPP Joint Governance Committee (JGC) on 23rd March 2022 and the draft minutes are appended for information which includes the recommendation of the Business Plan to the eight Constituent Authorities.

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
- Risk sub group
- Responsible Investment sub group
- Private Markets sub group – this includes the procurement process for private market allocators.

RECOMMENDATIONS

1.	That the Committee note and discuss the JGC agenda and agree any comments or questions for WPP.
2.	That the Committee approve the attached draft WPP Business Plan, including the objectives of the pool on page 7 and the budget on page 13, relating to the period 2022/23 to 2024/25.

REPORT DETAILS

1.00	Pooling Investment in Wales
1.01	<p>Joint Governance Committee (JGC) Agenda</p> <p>There was a WPP JGC on the 23rd March 2022. 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">• A progress update from the host authority.• The training plan for 2022/23.• The Business Plan (further details below)• A risk register review which this quarter considered the governance and regulation risks.• Annual reviews of the Communication Policy and Governance Matrix.• The appointment of Osian Richards from Gwynedd Pension Fund Board as Scheme Member Representative of the JGC and Ian Guy, City of Swansea Pension Fund Board as Deputy who will attend in Osian's absence, both for a two year tenure.• An update from the operator including the assets within the pool which are £16.6bn as at March 2022. The JGC was advised that it would be kept up to date over the next 6 months as Dye & Durham proceeds with the acquisition of Link Group.• An update on investment performance as at 31st December 2021. From a Clwyd Pension Fund point of view, this is for the Global Opportunities Equity Fund (invested since February 2019) and Multi Asset Credit Fund (Invested since August 2020) and the Emerging Market Equity Fund (invested since October 2021). All three mandates were ahead of their relevant benchmarks for the quarter. <p>Further information on the above is available in the full public agenda which is available here</p> <p>There were a further four items for which the public were excluded:</p> <ul style="list-style-type: none">• The quarterly Global Securities Lending report was received.• The quarterly Engagement report was received from Robeco.• The Allocators for the Infrastructure and Private Credit sub-funds were approved (further details below).• A Responsible Investment and Climate Risk report was received for the Global Credit Fund and the Multi Asset Credit Fund.
1.02	<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</p>

	<p>areas and important for the Clwyd Pension Fund because 27% of our assets are in private markets and the ambitions within our Responsible Investment and Climate Risk policy. The Head of the Clwyd Pension Fund attends the quarterly meetings of the Risk Register group and all three groups report back to the Officer Working Group.</p> <p>The Deputy Head of the Clwyd Pension Fund was part of the group that evaluated and interviewed the candidates for Allocators for Infrastructure and Private Credit. As mentioned above the appointments have been approved by JGC. These strategies should therefore be available from 2022/23 for commitments from Clwyd Pension Fund. The appointments are</p> <ul style="list-style-type: none"> • Closed Ended Infrastructure – GCM Grosvenor • Open ended Infrastructure – IFM ; CBRE; Octopus • Private Credit – Russell Investments <p>The procurement for a Private Equity Allocator is in progress and again the Deputy Head is part of the group evaluating tenders and interviewing candidates. The deadline for submissions is 22nd June 2022 with the contract award planned for early October 2022.</p> <p>Initial discussions on the approach on investing in a property fund are due to commence this month.</p>
1.03	<p>Since the last Committee the RI sub-group have met in February, April and May 2022. The main areas of discussion were :</p> <ul style="list-style-type: none"> • An update from Robeco on engagement and voting. • Climate risk and ESG reports for the WPP Emerging Market Equity fund and the UK Credit Sub Fund. • A review of the voting and climate risk policies. • Discussions around stock lending. • Feedback from the UK Stewardship Code submission • • Further updates with Russell Investments to progress the implementation of an Active Sustainable Equity Sub Fund. <p>The WPP is now a signatory of the Stewardship Code, however, in their response the Financial Reporting Council (FRC) helpfully highlighted a number of areas where improvements should be made. An action plan is being developed to address these matters ready for next year's submission.</p> <p>Russell Investments have continued to consult with all Constituent Authorities on the development of the Global Active Sustainable Equity Fund which the Clwyd Fund asked the WPP to create. Both Clwyd Officers and Mercer as our Investment Consultants have provided our views on progress reports provided by Russell. It is planned that the sub-fund structure will be recommended to the next JGC. Thereafter approval will be required from the Financial Conduct Authority (FCA) who are heavily scrutinising such funds to ensure there is no 'greenwashing' on the sustainable objectives.</p> <p>The Host Authority and RI sub group are also working with Robeco, (WPP</p>

	<p>Voting & Engagement provider) and Northern Trust (Stock Lending provider) on bespoke reports on voting and stock lending for each Constituent Authority. At the moment the confidential reports for JGC are for the WPP as a whole. A Constituent Authority may not hold the stock voted on or lent if they are not invested in that particular equity fund. Of the four equity funds available the Clwyd Fund is only invested in two.</p>
1.04	<p>WPP Business Plan 2022- 2025</p> <p>In accordance with the Inter Authority Agreement the approval of the WPP Business Plan, which includes the strategic objectives and budget, is a reserved matter for each of the eight Constituent Authorities.</p>
1.05	<p>The draft WPP Business Plan for the three years commencing 2022/23 is attached as Appendix 2. This is the WPP's third plan since its inception and as mentioned earlier the draft was approved for recommendation to the Constituent Authorities by the JGC. The draft Business Plan was developed in consultation with officers from the eight Constituent Authorities and the WPP Oversight Advisor.</p>
1.06	<p>The Business Plan includes WPP:</p> <ul style="list-style-type: none"> • governance, objectives, beliefs and an overview of the policies • risk management • work plan • training plan • financial budget • investments <p>Within the work plan the main areas of work are categorised as governance, sub-fund development, operator service (Link Fund Solutions), investments & reporting, communication & training and resources, budget and fees. ,</p>
1.07	<p>Excellent progress continues to be made by the WPP in terms of pooling investments, with across the eight Constituent Authorities, 73% of assets pooled with WPP and BlackRock, and the Business Plan outlines how further assets will be transitioned to WPP. Work which is currently on-going is outlined in 1.02 above</p> <p>In terms of investment and reporting this includes all the areas to be covered in relation to Responsible Investing and work which is currently on-going as explained in 1.03 above. This is an area highlighted to be of utmost importance to the WPP and is a positive step in helping the Clwyd Pension Fund achieve its own objectives in our Responsible Investment Policy.</p> <p>The other key area of work is for the preparation for the procurement for the operator service contract with Link Fund Solutions which ends in December 2024.</p>
1.08	<p>The budget on page 14 of the Business Plan has increased from 2021/22. This is due to the additional work expected from the Oversight Advisor in relation to Responsible Investment, especially compliance with the Stewardship Code, Task Force on Climate Related Financial Disclosures (TCFD) and private market procurements. The total fees will be shared equally between the eight Pension Funds. Fees due to the operator and private market allocators will</p>

	<p>increase as more assets are transferred into WPP in line with the operator agreement and will be allocated between the Pension Funds dependant on the individual assets under management. Furthermore, should it transpire that additional expenditure exceeding 30% of the agreed 2022/23 WPP budget is required, then this is also a reserved matter that will be brought back to the Constituent Authorities.</p>
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2.00	RESOURCE IMPLICATIONS
2.01	<p>The costs of resources required for delivering the WPP Business Plan is included in the budget section of the WPP Business Plan.</p> <p>A proportion of the costs from the WPP budget were included in the Clwyd Pension Fund budget within the Clwyd Pension Fund Business Plan.</p> <p>There is considerable time allocated by the Head & Deputy of the Clwyd Pension Fund in delivering and monitoring the WPP Business Plan which is not 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.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>Some elements of the Business Plan, such as the training plan, have been informed by questionnaires completed by all Constituent Authorities. The WPP Inter Authority Agreement requires all eight Constituent Authorities to approve the WPP Business Plan.</p>

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 our 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 DLUHC this year and the implications of that guidance are not yet known.</p> <p>Given these points, this risk (risk number 3 on the funding and investment register) continues to be categorised as significant in the Fund's risk register.</p> <p>The key risks are considered as part of the business planning process and articulated within the WPP Business Plan.</p> <p>The WPP risk register is included in the JGC agenda. The focus last quarter was on governance and regulation risks. The Head of Clwyd Pension Fund attends the WPP Risk sub group.</p>

5.00	APPENDICES
5.01	Appendix 1 – JGC 23rd March 2022 draft minutes. Appendix 2 – WPP Business Plan 2022 - 2025.

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: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 E-mail: Philip.Latham@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 management and stewardship of the Fund.</p> <p>(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</p> <p>(d) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) Inter-Authority Agreement (IAA) – the governance agreement between the eight Wales pension funds for purposes of pooling</p> <p>(f) Wales Pension Partnership (WPP) – the name agreed by the eight Wales pension funds for the Wales Pool of investments</p> <p>(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.</p>