Business Plan 2020/21 to 2022/23 – Q3 Update
Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Ref	Key Action –Task	2020/21 Period				Later Years	
		Q1	Q2	Q3	Q4	2021/22	2022/ 23
F1	Cash Flow and Liquidity Policy	x	xM	xM			
F2	Implement Revised Investment Strategy	x	x				x
F3	Implement Responsible Investment Strategic Priorities	x	x	x	x	x	x
F4	Ongoing Asset Pooling Implementation and Transition	x	x	x	x	x	x
F5	RPI reform and FSS Policy Update		x	x	x	x	
F6	Interim Funding Review					x	
F7	Triennial Actuarial Valuation and associated tasks						x

F1 – Cash Flow and Liquidity Policy

What is it?

The Fund has a significant number of factors to consider when looking at cash-flow requirements. These include contributions from employees and employers, payments to pensioners and transfer values in and out. On the investment side this includes income/dividends receivable from investments, commitments to Private Markets that require regular draw-downs and repayments of investments, and transition of existing investments.

As a result of all of these moving parts it is key to ensure that the Fund has sufficient cash flow to meet all its commitments, but without maintaining a significant balance in cash which would, potentially, be a drag on investment returns. Following on from the analysis performed in the last year, the CPF intends to implement a cashflow and liquidity policy.

A revised Policy was discussed by Officers and Advisers in January 2020 and is intended to ensure that all of the Fund's different cash flows are managed holistically, and that there is always sufficient cash available to make required payments and investments. This policy will be refined, agreed, and monitored on a regular basis with reports to Committee.

Timescales and Stages

Finalise cashflow and liquidity policy	2020/21 Q1

Resource and Budget Implications

The cost of this work is included within the Fund's budgets for 2020/21 and will include input from the Actuary and the Investment Consultant.

F3 –Implement Responsible Investment Strategic Priorities

What is it?

The Fund agreed its updated Responsible Investment policy in February 2020 with five key priorities which are as follows:

- Evaluate and manage carbon exposure
- Identify sustainable investment opportunities
- Improve public disclosure and reporting
- Active engagement on ESG risks
- Comply with the FRC Stewardship Code.

Alongside its Investment Strategy Review in 2019/20 the Fund reviewed and revised its Responsible Investment Policy. The Policy was split into a number of key areas setting out the Fund's approach to being a Responsible Investor. The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to do it all in one go. It has therefore decided to set the following strategic priorities for its work over the next three years (2020-2023):

- **Evaluate and manage carbon exposure**
  - This will include measuring the Fund's existing exposure to carbon within its investment portfolio, and once this has concluded, set targets to reduce this over the coming five years.
- **Identify sustainable investment opportunities**
  - The Fund's new Investment Strategy has an allocation to Social/Impact investments, or investments that aim to make a positive social or environmental impact. The Fund already has a number of investments in this area and will be looking to add to these.

- **Improve disclosure and reporting**
  - The Fund will be working to improve transparency and reporting. An analysis of the impact of Climate Change on the Fund's Investment Strategy will form part of this work.
- **Active Engagement on ESG risks**
  - To work proactively with WPP and LAPFF[1] to actively engage with the Fund's underlying investments.
- **FRC Stewardship Code**
  - The Fund is currently a signatory to the Code; however a new Code was launched in 2019. The aim is to assess the potential to remain a signatory in 2020.

In addition to these priorities, the Fund is aware that the Scheme Advisory Board and MHCLG will be issuing revised guidance on Responsible Investing in 2020, and it will be important to review the Fund's policy and update if necessary to ensure it is still relevant and compliant.

Timescales and Stages

Undertake Carbon Foot-printing analysis	2020/21 Q1
Agree approach to active engagement with WPP adviser	2020/21 Q1 & 2
Undertake Strategic Climate Change impact analysis	2020/21 Q2 & 3
Identify improvements to disclosure and reporting and implement	2020/21 Q3 & 4
Identify sustainable investment opportunities relating to social/impact	2020/21 to 2022/23
Review and revise RI Policy when national guidance is issued	Assumed 2020/21 Q2 & 3
Develop and submit application for new Stewardship Code	2020/21 Q3 & 4

Resource and Budget Implications

Estimated costs for the implementation are contained within existing plans/budgets including the costs of external consultants.

F4 – Ongoing Asset Pooling Implementation and Transition

What is it?

The Wales Pension Partnership ("WPP") was created to allow the pooling of assets across the Welsh LGPS Funds. The assets are continuing to be transitioned to WPP's Operator and further policies and procedures developed to ensure the proper management of WPP.

WPP has developed a three-year business plan for 2020 to 2023 which is subject to approval by the constituent authorities and includes the key areas of focus during that period. The timescales and stages below highlight how Clwyd Pension Fund will be involved in the ongoing work and transitions.

Timescales and Stages

Feed into development of key polices as per WPP business plan	2020/21 to 2022/23

[1] LAPFF is the Local Authority Pension Fund Forum, which aims to protect the long-term interests of beneficiaries through promoting high standards of corporate governance and responsibility.

Feed into review of governance of WPP	2021/22 and 2022/23
Transition of assets to newly launched funds: ▪ Fixed Income	2020/21 Q1
▪ Emerging Markets	2020/21 Q3
▪ Private Markets	2020/21 Q4
Review and develop a mechanism to pool any suitable non-pooled asset e.g. Flight Path	2022/23
Provide views to host on WPP operator arrangements and oversight	2020/21 to 2021/22
Provide input to preparation for Operator market review and re-tender	2021/22 to 2022/23
Feed into development of WPP reporting including ESG and climate change	2020/21 Q1 to 2021/22
Consider and implement MHCLG asset pooling guidance	Unknown

Resource and Budget Implications

2020/21 and future budgets will include CPF's share of the governance costs managing the pool, and also its share of fees relating to pooled assets. For 2020/21 the estimated cost of governance for CPF in relation to WPP is £119k, which includes an estimated share of the Host Authority costs (£95k) and the estimated costs CPF expects to bear directly from its own consultants for advice in relation to the WPP (£24k). The estimate for fees in relation to the pooled assets, including the Operator's costs, is £190k and is at this stage a provisional sum. Any other costs relating to the WPP will be met from within existing budgets.

F5– RPI reform

What is it?

For a number of years, concerns have been raised throughout the pensions industry as to whether the Retail Prices Index (RPI) provides a good measure of inflation. It was announced on 4 September 2019 that a reform of RPI will take place to bring it into line with the Consumer Prices Index (CPI), including owner occupiers' housing costs (CPIH). The change cannot be made until at least 2030 except with the consent of the Chancellor of the Exchequer. A consultation is expected to start on 11 March 2020 to consider this in detail and a statement is expected from the Chancellor in July 2020.

Any change may impact detrimentally on the value of the assets held by the CPF where they are linked to the RPI index e.g. Index-linked Government Bonds. As the Fund has a significant exposure to these types of assets, as part of the Flightpath to protect against increases in inflation expectations which in turn increase the liabilities of the Fund, consideration is required to whether changes are needed to mitigate the potential impact on the Fund assets. The Fund therefore performed an initial restructure of assets to limit the exposure to the potential risk of change whilst maintaining some inflation protection overall, albeit lower than the existing protection. This was done in Q4 2019/20.This will need to be monitored during and following the completion of the consultation to consider when and how the inflation protection is increased back to current levels.

In addition, this potential change has implications on the inflation assumption used in actuarial calculations so an initial adjustment has been proposed and this will also be kept under review during and after the consultation has been completed.

Timescales and Stages

Reconsider hedging position post consultation	2020/21 Q2 & 3
Implement new hedging position	2020/21 Q2 & 3
Actuarial implications for assumptions	2020/21 Q3 & 4 and 2021/22

Resource and Budget Implications

This will be performed by the risk advisers as part of the discussions that take place in the CPF Funding and Risk Management Group (FRMG) and estimated adviser costs have been included in the 2020/21 budget.