

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 9 June 2021
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 report provides updates on the following items:

- Confirmation of the outcome of the recent consultation on changes to the Funding Strategy Statement.
- Update on matters being considered at SAB's Responsible Investment Advisory Group which the Deputy Head of Clwyd Pension Fund attends.
- Risk register - there have been no changes to the scoring of the current risks.
- 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 for delegated responsibilities and provide any comments.
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REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Usually the three main update reports at each Committee include the latest progress against the business plan. Given we are only 2 months into 2021/22, there are no updates included for this meeting. Full updates will be provided at the next meeting.</p>
1.02	<p>Current Development and News</p> <p><i>SAB Responsible Investment Advisory Group</i></p> <p>As previously reported, the Scheme Advisory Board (SAB) have created a Responsible Investment Advisory Group (RIAG) consisting of a selection of Fund Managers, Consultants and representatives from the LGPS Asset Pools and key Administering Authority groups. The Deputy Head of the Clwyd Pension Fund represents the Wales Pension Partnership on this group and has attended both the meetings held in the last two months. The group are actively assisting SAB with responses to the following consultations: :</p> <ul style="list-style-type: none">• The Ministry of Housing, Communities and Local Government (MHCLG) intends to consult formally later this year on the implementation of mandatory reporting in the LGPS aligned to the Task Force on Climate related Financial Disclosure (TCFD) requirements. An informal consultation took place with a limited audience and RIAG assisted SAB with responses to this.• The Department for Work and Pensions (DWP) has launched a call for evidence for consideration of social risks and opportunities by occupational pension schemes. RIAG have also been assisting SAB with responses to this. <p>SAB have also created a Responsible Investment (RI) A – Z which is a one stop shop for information, links and case studies in a fast growing and complex area. There is the functionality to filter on areas of interest and covers classification such as asset class or approach, category (environmental, social, governance) or status (mandatory, aspirational) This will continue to evolve as more information is available. The RI A – Z can be viewed here.</p>
1.03	<p><i>Flintshire County Council – Climate / Carbon Enquiry</i></p> <p>At the meeting of Flintshire County Council on 25th May 2021, a question was asked of the Pension Fund with regard to exposure in fossil fuel industries and green or new energy technologies. The question and the Fund response was shared with Committee and Board members in advance of the meeting and is also attached as an appendix on agenda item 7 of this Committee.</p> <p>Prior to the Flintshire County Council meeting, the Pension Fund had held a briefing session for Committee and Board members which covered in detail the investments the Fund holds. The session invitation was also</p>

	extended to any Flintshire Members who wished to attend.
1.04	<p><i>Review of Employer Contributions and Flexibility on Exit Payments</i></p> <p>Proposed policies relating to the review of employer contributions and exit payment flexibility were incorporated into a draft revised Funding Strategy Statement (FSS) presented at the March Committee. The draft revised FSS was circulated to all employers in April for consultation and responses were requested by May 26th. All responses have now been received and will be incorporated into the final FSS. It was agreed at the previous Committee that any minor amendments be made by delegation to the Head of the Clwyd Pension Fund. The responses do not require any substantive changes at this time but if this changes we will bring the FSS back to the Committee for consideration.</p>
1.05	<p><i>GMP Indexation</i></p> <p>HM Treasury previously published a consultation on how the pensions of public service scheme members who have accrued Guaranteed Minimum Pension (GMP) should be indexed in payment once a member retires. In their view this would also satisfy GMP equalisation requirements between genders (with a few exceptions). The new State Pension introduced from April 2016 removed the mechanism that enabled full price inflation protection for public servants' GMP, and an interim solution to this problem, requiring the LGPS to provide full indexation on all GMP pension, was put in place for members who reach State Pension Age up to 5 April 2021. The consultation considered:</p> <ul style="list-style-type: none"> • Whether the government should discount conversion of GMP into non-GMP pension as a long-term policy solution and make the interim solution, of full indexation, permanent • If not, how long the government should extend full indexation for before reconsidering conversion or a feasible alternative solution in the future. <p>The response to the consultation was published on 23 March 2021. It has now been confirmed that HMT will not be adopting a "GMP conversion" approach for the LGPS. Instead, the current indexation provisions will be extended to cover those members of public service pension schemes reaching State Pension age from 6 April 2021. In our previous Committee, we concluded that this was the best option for the Fund and this was reflected in the Fund's response to the consultation. This was on the basis that it is the simplest option to implement from an operational perspective (especially given this solution is already in place up to 5 April 2021) and also the easiest option to communicate to the affected members. However, the solution does have implications in terms of a small increase in liabilities, as the affected members will now receive full indexation in line with CPI on their GMP as opposed to limited or no indexation. Based on the 2019 valuation data, the Fund Actuary has calculated this to be £7m for the Fund as a whole and most of this cost will fall on the major employers. This would be included at the 2022 actuarial valuation when setting employer contribution rates.</p>
	Policy and Strategy Implementation and Monitoring
1.06	The Advisory Panel receive a detailed investment report from the Fund's

	<p>Investment Consultants, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 12.</p> <p>As reported in agenda item 6, the estimated funding level is currently 102% and continues to be monitored. Our annual report will be reporting a 100% fully funded position as at 31st March 2021. Appendix 3 shows the historic funding position from 1989 to 2021 and key milestones for the Fund from 1989 when the Fund allowed employers to take a “contribution holiday” and funding levels were able to be less than 100%. Stock market falls and lower return expectations caused levels to drop as low as 65% in 2004 and were only at 68% in 2013 when the “Flight Path “ strategy was introduced in 2014. Since then, levels continued to improve and had been close to 100% before the impact on markets last March 2020 due to the COVID-19 pandemic after which we have seen markets rebound to current levels.</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 delegations arising from these meetings are detailed in Appendix 1.</p>
1.07	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 1 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). • Three further investments have been agreed across the Private Equity and Impact portfolios.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	As outlined in paragraph 1.03, the proposed changes to the Funding Strategy Statement was consulted on with employers.

4.00	RISK MANAGEMENT
4.01	Appendix 2 provides the dashboard and risk register highlighting the

	current risks relating to Investments and Funding matters.
4.02	<p>There have been no additional risks added to the register since the last Committee and all nine risks have remained the same as reported to the February 2021 Committee. Of the nine, most remain on target and the remainder are one step away from the target impact or likelihood, which is mainly due to the uncertainty around markets.</p> <p>The most significant risk (but still just one step away from target) is risk nine which is that the Fund's long-term Investment Strategy fails to deliver appropriate returns due to either responsible investment not being properly considered or WPP does not provide the Fund with the tools to enable implementation of its RI policies.</p> <p>In line with Internal Audit recommendations, we are changing and expanding on the narrative on some risks, mainly the risk descriptions or names.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – Delegated Responsibilities Appendix 2 – Risk dashboard and register – Investments and Funding Appendix 3 – Historic Funding Positions</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Funding Strategy Statement - March 2021 Pension Fund Committee</p> <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 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) 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.</p>

- (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) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **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.
- (l) **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.
- (m) **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.
- (n) A full glossary of Investments terms can be accessed via the following link.

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