

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 10 <sup>th</sup> November 2021
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	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:

- The Fund's interim funding review
- The Business Plan 2021/22 – all projects are currently on track
- Update on work ongoing in relation to climate analysis
- Risk register - there have been no changes to 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, and provide any comments.
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## REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p><b>Business Plan Update</b></p> <p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2021/22. Key tasks F1 to F4 are mainly currently on target and further information is as follows:</p> <ul style="list-style-type: none"> <li>• F1 (Implement Responsible Investment Strategic Priorities) – the six areas highlighted in the business plan are all progressing. In particular: <ul style="list-style-type: none"> <li>○ Work is now commencing on the Fund’s application for the new Stewardship Code, which involves working with WPP to gather appropriate information.</li> <li>○ The WPP RI group is working with individual Fund Consultants, Hymans and Russell Investments to progress the inclusion of a Sustainable Active Equity Sub Fund for WPP</li> <li>○ Further investments are being identified and appraised in relation to local/impact opportunities.</li> </ul> </li> <li>• F2 (Climate Change) – see the separate Responsible Investment Roadmap report.</li> <li>• F3 – Ongoing Asset Pooling Implementation and Transition – see separate Asset Pooling in Wales report. Key points to note are: <ul style="list-style-type: none"> <li>○ MHCLG asset pooling guidance has still not yet been issued.</li> <li>○ WPP have produced their Annual Report</li> <li>○ The transition of assets to Emerging Markets was concluded in October 2021 as explained further in the Asset Pooling in Wales report.</li> </ul> </li> <li>• F4 – Interim Funding Review – an update is provided in paragraph 1.06.</li> </ul>
1.02	<p><b>Current Development and News</b></p> <p><i>Climate Analysis</i></p> <p>The Fund Consultant, Mercer have now completed the analysis of the stocks held with our asset managers as at March 31 2021. This is covered in agenda item 11.</p>
1.03	<p><i>Participation in Events</i></p> <p>The Head of the Pension Fund has been invited to join discussions with HM Treasury and the Productive Finance working group, a group established in late 2020 to develop practical solutions to the barriers for Defined Contribution schemes to invest in long term, less liquid assets.</p>
1.04	<p>The Impact Institute invited the Deputy Head of the Pension Fund to participate in a panel at COP26 in Glasgow on November 3 2021. The panel discussed “Adopting a transitional mindset for a better future”.</p>
1.05	<p><i>Pensions for Purpose Awards</i></p> <p>The Fund has been shortlisted for the new “Impact Investing Adopter Award” alongside Surrey Pension Fund and South Yorkshire Pension Fund at the Pensions for Purpose annual award ceremony on November 17 2021.</p>

1.06

### *Interim Funding Review*

The purpose of the interim funding review is to provide assurance that the existing funding strategy is on track, and to provide the latest situation to employers to assist them in longer term budget setting. The Fund Actuary has now completed the 2021 funding review, which assessed the updated funding position as at 30 September 2021. For the purposes of more realistic modelling, some of the factors identified in the funding review (see below) had been partly allowed for in the separate monthly Funding, Flight Path and Risk management monitoring report (as included in agenda item 10). The impact of the updated membership data and legislative changes will be allowed for in these monthly report from October onwards. The main considerations and outcomes were as follows:

#### **(i) Actuarial Assumptions**

Expected future returns above inflation had fallen – principally due to increased inflation expectations – which (all other things equal) reduces the discount rate assumed which then increases the liabilities. Therefore at the next valuation, the Actuary is likely to propose that a reduction in the expected return over inflation of broadly 0.25% p.a. would be appropriate taking into account the reduced risk due to the Flightpath Framework which has improved the outcome as previously reported. This will be kept under review over the next few months, in particular due to the higher inflation predictions, as we move towards the 2022 valuation and the review of the Funding Strategy by the Committee.

The Actuary also considered the latest life expectancy trends from the Continuous Mortality Investigation actuarial group. Whilst the overall trend is showing a further slowdown in life expectancy improvements, it was concluded that no allowance should be made for the impact of Covid-19 at this stage even though there is some evidence of higher deaths over 2019 to 2021 in the Fund data. This will be considered in more detail by the Actuary along with other assumptions in early 2022 as part of the review of the Funding Strategy and reported in more detail to the Committee. The latest trends could improve the funding level by 0.5% and could reduce the future service rate by 0.1% of pay.

#### **(ii) Membership data and legislative impacts**

At a total Fund level there has been no major shift in the membership profile that has affected the interim review outcomes, although salary increases to date were greater than expected versus that assumed in the last valuation which will affect the final salary related liabilities for service prior to 1 April 2014. On average over 2019 to 2021, full-time equivalent pay (including increments) had increased by 4.1% p.a. versus the 2% p.a. assumed, which will result in a reduction in the funding level of c1.2% in isolation. The level of future salary inflation going forward will be discussed with employers (as part of the next actuarial valuation process) given the inflationary pressures due to the fiscal outlook and labour shortages in some areas, which will then be factored into results.

At the 2019 valuation employers could make provision for the potential

	<p>impact of the remedy expected in relation to the McCloud Judgment even though it was unclear how this would be applied and for how long. Whilst the remedy has yet to be finalised it has become clearer that it will remain broadly as we expected but would not apply for service after 31 March 2022. As part of the interim review, the Actuary has estimated the impact of the expected remedy for the McCloud judgment directly in the funding position and removed the impact from the future service rate. For more accurate monitoring purposes, an approximate allowance for this has been included in the separate monthly reports and this has also now been updated for the latest membership information.</p> <p>As reported at the previous committee meetings it has been confirmed that Guaranteed Minimum Pensions (GMP) will be equalised by extending full inflation proofing for members who reach State Pension Age after 2016 and this was also considered in the funding review.</p> <p>Both these factors would reduce the funding level by 1.4% overall (when compared to the 2019 valuation).</p> <p><b>(iii) Funding review outcome at 30 September 2021</b></p> <p>Taking into account the factors in (i) and (ii) above the interim review suggests an average funding level of 103% and an average future service rate of 18.6% of pay. Overall, and subject to the review of the funding strategy as part of the 2022 valuation, this could mean a reduction in contributions for some employers could be justified if a similar outcome emerges at the 2022 valuation with any contribution change being effective from 1 April 2023. The Committee are reminded that individual employer circumstances mean employer contribution rates can vary substantially.</p> <p>In preparation for and throughout the 2022 actuarial valuation process, the Committee will receive further updates.</p> <p>The Deputy Head of CPF and the Actuary met with the Unitary Authorities at a Steering Group on 22 October 2021 to discuss the results of the interim review including the potential impact on individual Councils' budgets following the next valuation. This dialogue will continue in 2022 as the position becomes clearer on the potential 2022 valuation outcomes. Similar discussions will be offered to other Fund employers. The Actuary will also provide a high level update to all employers at the AJCM in November.</p>
1.07	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p>The Advisory Panel receive a detailed investment report from the Fund's 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 9.</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"> <li>• Tactical Asset Allocation Group (TAAG)</li> <li>• Cash and Risk Management Group (CRMG)</li> </ul>

- Private Equity and Real Assets Group (PERAG)

Any decisions arising from these meetings which have been agreed using delegated responsibilities will be detailed in Appendix 2 when finalised.

*Private Markets*

As reported to the June Committee, 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 until they are transitioned to WPP. This work includes identifying potential managers on a sustainable basis.

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.

Since end September there have been 11 opportunities (£142m of commitments) considered and meetings held covering the following asset classes:

Asset Class	No of Managers	Total Commitments
Private Debt	2	£26m
Private Equity	5	£73m
Impact	2	£20m
Infrastructure	2	£23m

**Delegated Responsibilities**

1.08

The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise:

- 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).

**2.00**

**RESOURCE IMPLICATIONS**

2.01

None directly as a result of this report.

**3.00**

**CONSULTATIONS REQUIRED / CARRIED OUT**

3.01

None directly as a result of this report.

**4.00**

**RISK MANAGEMENT**

4.01

Appendix 3 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 of the risks have remained the same as reported to the September 2021 Committee. Of these, 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 risk which is furthest from target is risk four, which is that the value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. The target for this risk is longer term and now that the Interim Funding review has been completed, this and other risks will be reassessed.</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 on its ambition or objectives as a responsible investor, 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. Whilst the Fund is addressing this in a number of ways, due to the magnitude of the risk, it is still not appropriate to consider this on target.</p>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 – 2021/22 Business plan update  Appendix 2 – Delegated Responsibilities  Appendix 3 – Risk dashboard and register – Investments and Funding</p>

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

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund - Clwyd Pension Fund</b> – 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) <b>Administering authority or scheme manager</b> – 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) <b>The Committee - Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</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.
- (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/>