

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 15 February 2023
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	Graduate Investment Officer Trainee

### 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 for noting which include.

- LGPS: Changes to the Scheme Advisory Board (SAB) cost management process (1.02-1.03)
- Progress with the items on the Business Plan 2022/23
- Wales Pensions Partnership (WPP) voting and engagement
- Risk register - there have been no changes to the risk register this quarter.
- 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

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
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 2022/23. Key tasks are currently on target and key points to note are as follows:</p> <ul style="list-style-type: none"><li>• F1 (Funding Strategy Statement Review and Triennial Actuarial Valuation) – the Actuarial Valuation process for 31 March 2022 is now complete. See agenda item 6.</li><li>• F2 (Review of Investment Strategy) – This is now complete. See agenda item 5.</li><li>• F3 (Climate Change and TCFD) – This is now complete. See agenda item 4. Members attended a training session on 1 February 2023.</li><li>• F5 (LGPS Investment Related Developments) – This continues to be delayed in some areas as the consultation(s) that were due prior to the summer have not as yet been issued. This will now be included in the Business Plan for 2023/24.</li></ul>
1.02	<p><b>Current Development and News</b></p> <p><i>LGPS: Changes to the Scheme Advisory Board (SAB) cost management process</i></p> <p>On 30 January 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation setting out proposed updates to the SAB cost management process for the LGPS. This consultation will last for 8 weeks from 30 January 2023 to 24 March 2023.</p> <p><b>Background</b></p> <p>Valuations of the public service schemes (e.g. LGPS, Civil Service, Teachers, NHS) are undertaken by the Government Actuary's Department on a 4 yearly cycle and these inform the separate HM Treasury cost management process. These valuations are used to consider whether the cost of the pensions have fallen outside of a target level, in which case changes are to be made to bring costs back to target (as well as to set contribution rates for the unfunded schemes). This cost control mechanism is undertaken by HMT and a consultation regarding a change in how it operates took place in 2021 following which changes to this process were confirmed. This included the introduction of an "economic check", whereby if the schemes' costs fall outside a target level, an "economic check" will be undertaken before it is determined whether any changes to the schemes are needed to bring costs back into line with the target.</p> <p>For the LGPS there is also a parallel SAB 'cost management process'. The SAB process uses a different target cost and the underlying assumptions used to measure LGPS costs can be different from the HMT process. Recommendations for changes which are made as a result of the SAB process (where these are accepted by Government) are considered when calculating the LGPS costs for the purpose of the cost control mechanism.</p> <p>Following confirmation of the changes to be made to the HMT cost control</p>

	<p>mechanism in 2021, the SAB also proposed changes to its LGPS process, to ensure the two processes remain aligned, which were approved by the Board in 2022. As part of this, the SAB also considered whether to align to the new “economic check” that will be applied in the HMT process. Instead, the SAB decided it would be preferable to consider changes in the LGPS discount rate, as determined following advice by its actuary. The Government has confirmed that it is content with this approach.</p>
1.03	<p><b>What are the proposed changes?</b></p> <p>The consultation is technical in nature and outlines changes to the regulations governing cost control in the LGPS which the Government considers are desirable or necessary following the SAB review. The Government has confirmed that it remains of the view that there should be flexibility in how the HM Treasury cost control mechanism and the SAB cost management process interact.</p> <p>The proposed changes in the SAB cost management process are as follows:</p> <ul style="list-style-type: none"> <li>• A requirement to undertake the whole LGPS Scheme valuation on a 4 yearly cycle rather than a 3 yearly cycle, which brings it into line with the process for the other public service schemes.</li> <li>• This does not change the requirement to undertake individual LGPS Fund valuations on a 3 yearly cycle although whether this changes in the future remains to be seen.</li> <li>• Incorporating more flexibility if the SAB decide to make recommendations on costs.</li> <li>• SAB will be consulted on the technical accuracy of any changes in regulations that may be needed to incorporate the new “economic check” mechanism into the updated HMT process, prior to implementation*</li> </ul> <p>There is no direct impact to the Clwyd Pension Fund in relation to these proposals. Changes to the HMT and SAB cost management processes will take effect for the next valuation of the public service schemes, effective 31 March 2020.</p> <p>As the consultation has no direct impact on the Fund, it is proposed that the Fund will not be responding, although Mercer as our Fund Actuary will be responding in due course. Mercer can take into account any client views in their response.</p>
1.04	<p><b><i>Environmental Finance: Impact Pension Fund of the Year Award</i></b></p> <p>The Fund is delighted to have been awarded ‘Pension fund of the year’ at the <i>Environmental Finance’s Impact Awards 2022</i> for its ‘place-based’ investing approach and 4% asset allocation to impact.</p> <p>The Fund was identified as a “trailblazer” by the impact organisations The Good Economy and Pensions for Purpose, for its commitment to providing private capital to local and regional opportunities, highlighting the Fund’s commitment to responsible investing.</p> <p>The full article can be found <a href="#">here</a>.</p>
1.05	<p><b><i>Wales Pension Partnership (WPP) Responsible Investing Update</i></b></p>

	<p>The Fund's key priorities within its Responsible Investment (RI) policy included enhanced reporting on RI matters. Work is ongoing with WPP to produce a template for each of the Welsh Pension Fund Committees to receive information on voting, engagement and stock lending. Until the template is finalised, the Fund will provide publically available documentation.</p>
1.06	<p><u>Roles and responsibilities</u></p> <p>The role of monitoring the engagement, voting and stock lending carried out by Robeco and Northern Trust on behalf of WPP lies with the WPP Joint Governance Committee (JGC), rather than the Clwyd Pension Fund Committee. However WPP's role is to deliver the RI policies of all the Constituent Authorities.</p>
1.07	<p><u>Voting and Engagement</u></p> <p>As an asset owner, there are opportunities to engage with companies, and also vote at Annual General Meetings, with a view to helping improve company policies in relation to environmental, social and governance matters. As WPP own stocks on behalf of the Constituent Authorities (including Clwyd Pension Fund), they carry out voting and engagement on their behalf.</p> <p>WPP have appointed Robeco as the Voting and Engagement provider. The Deputy Head of the Clwyd Pension Fund, as part of the WPP RI Sub Group, has been working with Robeco to create suitable reports for Constituent Authorities showing the voting and engagement that has taken place.</p>
1.08	<p>Appendix 2 highlights the engagement work that has been carried out on behalf of WPP from September to December 2022. This quarter provides information and case studies on the following areas of engagement:</p> <ul style="list-style-type: none"> <li>• Social Impact of Artificial Intelligence</li> <li>• Social Impact of Gaming</li> <li>• Biodiversity</li> <li>• Corporate Governance Standards in Asia</li> <li>• Proxy Voting</li> </ul> <p>It is important to note that the lists of stocks in the engagement report are for the WPP as a whole and may or may not be in sub funds the Clwyd Pension Fund is invested in. This is one of the areas of enhancement that is ongoing.</p> <p>Appendices 3 and 4 provide summary details for the proxy voting reports for the Global Opportunities and Emerging Market Equity Funds in which the Fund is invested. The reports cover the number of meetings and votes cast for the period to December 2022 and some of the voting highlights.</p>

1.09	<p><b><u>Securities Lending</u></b></p> <p>Securities lending involves the owner of shares or bonds transferring them temporarily to a borrower. In return, the borrower transfers other shares, bonds or cash to the lender as collateral and pays a borrowing fee. Stock lending can, therefore, be used to incrementally increase fund returns for investors.</p> <p>WPP have appointed Northern Trust to lend securities, which are held within the WPP sub-funds, on their behalf.</p> <p>Quarterly Securities Lending reports are presented at each WPP Joint Governance Committee (JGC). The results below were presented to the JGC on 5 December 2022.</p> <p>The total amount of WPP net revenue received for securities lending in the quarter to September 2022 was £259,092. The Clwyd Pension Fund is only invested in 3 funds which generated the revenue as shown in the following table.</p> <table border="1" data-bbox="304 801 1369 1104"> <thead> <tr> <th>Sub Fund</th> <th>WPP Net Revenue £</th> <th>CPF Net Revenue £</th> </tr> </thead> <tbody> <tr> <td>Global Opportunities Equity (4%)</td> <td>108,644</td> <td>4,346</td> </tr> <tr> <td>Emerging Markets Equity (47%)</td> <td>4,374</td> <td>2,056</td> </tr> <tr> <td>Multi Asset Credit (34%)</td> <td>21,879</td> <td>7,439</td> </tr> <tr> <td>Total</td> <td>134,897</td> <td>13,841</td> </tr> </tbody> </table>	Sub Fund	WPP Net Revenue £	CPF Net Revenue £	Global Opportunities Equity (4%)	108,644	4,346	Emerging Markets Equity (47%)	4,374	2,056	Multi Asset Credit (34%)	21,879	7,439	Total	134,897	13,841
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1.10	<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 existing approved Investment Strategy, as well as 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 verbal updates from key matters considered at 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> <li>• Private Equity and Real Assets Group (PERAG)</li> </ul> <p>Any decisions arising from these meetings which have been agreed using delegated responsibilities are detailed in Appendix 5.</p>															
1.11	<p><b>Delegated Responsibilities</b></p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 5 updates the Committee on the areas of delegation used since the last meeting. To summarise:</p> <ul style="list-style-type: none"> <li>• Cash-flow forecasting continues to be monitored through the Cash and Risk Management Strategy.</li> <li>• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).</li> </ul>															

	<ul style="list-style-type: none"> <li>The following commitments to private market investments have been made in line with the Fund's Investment Strategy and recommendations from Mercer, the Fund Consultant; more details are provided in 1.13.</li> </ul> <table border="1"> <thead> <tr> <th>Asset Class</th> <th>Fund</th> <th>Commitment</th> </tr> </thead> <tbody> <tr> <td>Property</td> <td>Newcore V</td> <td>£15m</td> </tr> <tr> <td>Infrastructure</td> <td>Sandbrook I</td> <td>\$20m (£17m)</td> </tr> </tbody> </table>	Asset Class	Fund	Commitment	Property	Newcore V	£15m	Infrastructure	Sandbrook I	\$20m (£17m)
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1.12	<p><b>Private Market Allocations</b></p> <p>As reported to previous Committees, due to the WPP currently appointing 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 in addition to private equity and impact opportunities until they are transitioned to WPP. This work includes identifying potential managers on a sustainable basis.</p>									
1.13	<p>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. The Fund and Mercer continue to be busy considering new allocations for 2022/23.</p> <p>The Fund has committed to two new investments during the quarter – Newcore is an existing Property manager that the Fund has been invested with since 2019, whilst Sandbrook is a new Infrastructure manager.</p> <p><b>Newcore V</b></p> <p>Newcore is raising £200m for its fifth fund. The UK-based real estate manager specialises in social infrastructure and offers a compelling opportunity for investing in value-add real estate with inflation-linked income and strong ESG credentials.</p> <p><b>Sandbrook I</b></p> <p>Sandbrook is raising \$1bn for its first Climate Infrastructure Fund. The strategy focuses on both greenfield and brownfield opportunities and seeks to invest in energy transition infrastructure across North America, Europe and other Organisation for Economic Co-operation and Development (OECD) countries.</p>									

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p>The Governance Administration Assistance vacancy has been filled since the last committee. Due to two post vacancies in the Fund's Finance Team (out of a total team of seven), a proportion of the work of the team has been outsourced to the Fund's consultants. This is a temporary measure until the posts are filled. The recruitment for the Principal Accountant is underway. It is critical these posts are filled in the near future due to the number of vacancies in this team.</p>

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Appendix 6 provides the dashboard and risk register highlighting the current risks relating to investments and funding matters.
4.02	No additional risks or changes have been made to the risk register since the last Committee. All risks are either on or close to target.
<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – 2022/23 Business plan Appendix 2 – WPP Engagement Report Q3 2022 Appendix 3 – WPP Global Opportunities Summary Voting Q3 2022 Appendix 4 – WPP Emerging Market Equity Summary Voting Q3 2022 Appendix 5 – Delegated Responsibilities Appendix 6 – Risk dashboard and register – Investments and Funding
<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.  <b>Contact Officer:</b> Ieuan Hughes, Graduate Investment Officer Trainee, Clwyd Pension Fund <b>E-mail:</b> <a href="mailto:ieuan.hughes@flintshire.gov.uk">ieuan.hughes@flintshire.gov.uk</a>
<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	(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  (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.  (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  (d) <b>TAAG – Tactical Asset Allocation Group</b> – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from Mercer, the Fund Consultant.  (e) <b>AP – Advisory Panel</b> – 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) **WPP – Wales Pensions Partnership** – The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. WPP has appointed an Operator to manage assets collectively for the eight Wales LGPS funds. A proportion of the Clwyd Pension Fund assets are invested via WPP.
- (i) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (j) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (k) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers’ contributions to the Fund
- (l) **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.
- (m) **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.
- (n) **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.
- (o) **Department for Levelling Up, Housing & Communities (DLUHC)** – supports communities across the UK to thrive, making them great places to live and work.
- (p) **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.
- (q) **OECD Countries** – Organisation for Economic Co-operation and Development; 38 Member countries from North and South America to



Europe and Asia-Pacific.

A full glossary of Investments terms can be accessed via the following link.  
<https://www.schroders.com/en/uk/adviser/tools/glossary/>