

CLWYD PENSION FUND COMMITTEE

30 August 2023

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held as a hybrid meeting at County Hall at 9.30am on Wednesday, 30 August 2023, with remote attendance available via Zoom.

PRESENT: Councillor Ted Palmer (Chairman)

Councillors: Jason Shallcross, Antony Wren, Sam Swash

CO-OPTED MEMBERS: Councillor Andy Rutherford (Other Scheme Employer Representative), Councillor Anthony Wedlake (Wrexham County Borough Council), Cllr Gwyneth Ellis (Denbighshire County Council), and Mr Steve Hibbert (Scheme Member Representative)

ALSO PRESENT (AS OBSERVERS): Phil Pumford (PFB Scheme member representative)

APOLOGIES: Cllr Dave Hughes (Flintshire County Council)

Advisory Panel comprising: Philip Latham (Head of Clwyd Pension Fund), Gary Ferguson (Corporate Finance Manager), Paul Middleman (Fund Actuary – Mercer), Steve Turner (Fund Investment Consultant – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of Clwyd Pension Fund), Karen Williams (Pensions Administration Manager), Alison Murray (Alternate Independent Adviser, Aon), Sandy Dickson (Investment Adviser – Mercer), Ieuan Hughes (Graduate Investment Trainee), and Morgan Nancarrow (Governance Administration Assistant – taking minutes).

Guest speakers presenting comprising
Michelle Phoenix (Audit Wales)

The Chair welcomed Michelle Phoenix of Audit Wales who would be presenting the audit plan at item 3. He also explained that as this meeting had a very full agenda, there were a number of items for noting only that would not be presented in detail, however comments and questions regarding those reports would be invited as usual.

1. **DECLARATIONS OF INTEREST (including conflicts of interest)**

The Chair invited attendees to declare any potential conflicts of interest that they may have in relation to the Fund, other than those already recorded in the Fund's register.

There were no new declarations of interest.

2. **MINUTES 29 MARCH 2023**

Mr Hibbert confirmed with respect to page 11 of the minutes that Mrs Fielder had forwarded further communication from Robeco, the contents of which would be best addressed under agenda item 13.

The minutes of the meeting of the Committee held on 29 March 2023 were agreed.

RESOLVED:

The minutes of 29 March 2023 were received, approved, and will be signed by the Chairman.

3. **DRAFT ANNUAL REPORT INCLUDING ACCOUNTS 2022/23**

The background to the audit plan was introduced by Michelle Phoenix, the Financial Audit Manager with Audit Wales who are responsible for the external audit of the Fund. She explained that the detailed audit plan for the 2022-23 audit contains key messages for the attention of the Committee, and highlighted that there would be a new approach to the audit this year due to the implementation of the International Standard of Auditing 315 (ISA 315). ISA 315 puts a greater emphasis on the planning of the audit and involves a very granular approach looking in great detail at the Fund's accounts and internal controls, and identifying risks specific to the audit. This means a more focussed audit with more work being undertaken before the audit of the financial statements can commence. This change has contributed to an increased fee: 10.2% of the increase was due to ISA 315, as well as additional costs due to inflation.

She noted that two members of the audit team are deferred members of the Fund, however safeguarding measures were put in place to ensure this did not impact the independence of the audit.

Mrs Fielder took the Committee through the draft Annual Report and Accounts, which LGPS regulations require to be published before December 1 each year. She confirmed that Flintshire County Council's Section 151 Officer has reviewed the accounts and his comments were incorporated. She thanked Mercer for their support in preparing the report and noted that this document was to be considered in draft, and further work would be done around presentation and accessibility before bringing the final audited version for approval to Committee on November 29.

Mrs Fielder noted that in the preparation of its draft Annual Report, the Fund aims to comply with CIPFA guidance. She highlighted on page 152 of the pack the actual cost compared to budget which showed a £4.9 million overspend on the £23.7 million budget, which was mainly driven by a £5.5 million overspend on investment management expenses. Mrs Fielder explained the investment management

expenses and noted last year that the Fund had underbudgeted for investment fees, particularly performance fees on the private market portfolio.

She talked the Committee through the accounts and financial report including cashflows compared to the budget and explained the reasons behind some of the variances. She then continued through the remaining sections of the Annual report including the key strategies and policies that would be included in section 5 of the final report.

Mr Hibbert commented that he finds the annual report to be a good way of judging progress made by the Fund across many areas. He thanked everyone involved for the work done and progress made over the year.

Cllr Swash noted the Good Economy Factsheet referenced within the report. He commented with reference to the 10% invested in Wales, around half of which was invested in Clwyd, that he would like to review this data in more detail. He thanked officers for providing this report.

RESOLVED:

- a) The Committee considered the Fund's draft Annual Report for 2022/23 including the draft Statement of Accounts.
- b) The Committee noted and commented on the Audit Wales plan.
- c) The Committee noted the Audit Enquiries letter and response.

4. DLUHC CONSULTATION ON LGPS: NEXT STEPS ON INVESTMENTS

Mr Latham took the Committee through this report. Officers and advisers proposed a draft response to the consultation, but noted that the final response should come from the Committee. The Committee were therefore being asked to provide any comments. The proposed response had been drafted from the point of view of Clwyd Pension Fund. Other funds within the LGPS are likely to be affected in different ways so will pick up on different issues.

Mr Latham noted that WPP will be submitting its own response to the consultation which the Officer Working Group and the I, as a member of the Joint Governance Committee, would have the opportunity to input into. It is hoped that there will be consistency in responses from funds across Wales and the appendix therefore notes key areas where the Fund intends to take views from WPP once their response is agreed on.

The Consultation document did not state if WPP would be exempt from the proposed future minimum £50 billion pool size. However, DHLUC officials have suggested that there is no intention to require cross border pooling so WPP will be given an exemption. This may be emphasized in the WPP response. Mr Latham explained that the Fund's response had been drafted on the basis that the

Committee was happy for WPP to continue in its current arrangement and asked the Committee to confirm that this was the case, to which there were no objections.

He then talked through the key points of the draft response where officers' and advisers' views did not align with the proposals within the consultation, highlighting:

- The Fund's view that investment strategy should continue to be determined locally by the Committee and that Pools should not provide investment advice as this would appear to be a conflict of interest.
- The proposal that the constituent funds' investment strategies should be closely aligned. The Fund currently has its own liabilities and manages inflation and interest rate risk differently from other funds. Under the proposals the Fund could not continue its existing strategy.
- The Fund was already doing work in levelling up investments, including its work with Good Economy, and aligns with most of the proposals in this area. However, Mr Latham raised concerns about the proposal to report against the twelve levelling-up missions of the current Government. He noted that the industry continues to make progress in reporting against sustainable development goals, and his view that these would be more suitable targets to align with. He also noted that the twelve missions do not appear to include renewable energy.
- The Fund has a long history of investing in private equity which not all LGPS funds do. However he suggested that rather than being restricted to private equity, the definition should be broadened to private markets in order to capture debt investments and other asset classes.

Mr Latham noted that the deadline for responding to the consultation was 2 October 2023, which is before the next scheduled Committee meeting on 29 November.

RESOLVED:

- a) The Committee noted and commented on the main points identified for the DLUHC consultation response.
- b) The Committee delegated responsibility for approving the final DLUHC consultation response to the Head of Clwyd Pension Fund.

5. **DRAFT STEWARDSHIP CODE SUBMISSION**

The Chair explained that last year the Fund was accepted as a signatory to the new stewardship code and that this formally recognised the work done by the Fund in asset stewardship. It was proposed that the Fund would reapply this year in order to maintain signatory status.

Mr Dickson explained that the stewardship report now covers all asset classes. He highlighted on page 225 the 12 principles under which the Fund reports

against the stewardship code, and explained that the report is set out to address each principle. The Fund had incorporated FRC's detailed feedback on the previous year's submission into the draft report. The deadline for submission is 23 October 2023, before the next Committee meeting and therefore the Committee was asked to provide any feedback and suggest changes, and delegate approval for the final version to the Head of Fund. He noted that any changes to the Responsible Investment (RI) policy agreed at this meeting would be reflected in the final stewardship report to demonstrate how the Fund is continuing to make progress while still reporting on the period ending 31 March 2023.

RESOLVED:

- a) The Committee considered and commented on the contents of the draft Stewardship Code submission.
- b) The Committee delegated responsibility for approving the final submission to the Head of Clwyd Pension Fund.

6. **RESPONSIBLE INVESTMENT POLICY WITHIN THE INVESTMENT STRATEGY STATEMENT**

The Chair explained that the Fund held a number of training sessions on this topic, and that the proposed responsible investment wording had been circulated in advance of the meeting and was now being brought to the Committee for approval.

Mr Turner talked the Committee through the RI section of the Investment Strategy Statement (ISS), highlighting key areas of change.

- The first major change was the establishment of a clear six-stage framework to assess the appropriateness and potential impact of any exclusions considered by the Committee, on page 227 of the pack.
- On page 330, changes were made to the wording of target 4, addressing investment in sustainable mandates by 2030 within the listed equity portfolio. The target had been changed from 30% to 100% by 2030, reflecting the Fund's switch to the WPP Sustainable Equity sub-fund. This target will require WPP/Russell to investigate the possibility of a sustainable emerging markets sub-fund. If this is not practicable, the Fund would then potentially consider switching these investments into the existing Sustainable Equity sub-fund.

Feedback on the proposed wording had been received from Mr Hibbert and Cllr Swash prior to the meeting:

- Regarding the last paragraph of page 330 and the first of page 331, Cllr Swash had asked if this was sufficiently strong in relation to divestment from fossil fuels, and the Head of Fund had provided a response. Mr Turner explained that this was considered, however it was proposed that the Fund keep the existing wording which was based on the IIGCC

(Institutional Investors Group on Climate Change) definition of fossil fuels companies, which is more comprehensive and captures carbon intensive companies across all sectors including manufacturing, construction and transportation.

- Cllr Swash had also suggested removing some wording in the exclusions policy and this change has been applied.
- Mr Hibbert had suggested some additional wording around taking action to divest from companies where it was considered that engagement was not effective. Based on this feedback the draft wording had been updated while recognising the balance between the Committee's ambition and the practicality of divestment in connection to ongoing discussions of an escalation process within WPP.

Mr Hibbert noted that he approved of the resulting wording.

Mr Turner then took the Committee through the proposed Exclusions Policy within the ISS. He noted the Local Pension Board's statement of approval for the process that had been taken and their support for a Paris aligned investment approach, where appropriate. He confirmed that the Board's proposed change to the exclusions policy would be applied. He explained that the main objective of this part of the ISS was to make clear the Committee's ambitions for exclusions, and how these are balanced against the implementation challenges and ongoing engagement that will be required with WPP.

With reference to the key targets within the Listed Equity portfolio on page 330, Cllr Swash questioned whether the aim "to target all of the Listed Equity portfolio being invested in sustainable mandates by 2030" contradicted the later target "by 2030, at least 90% of companies in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective". Mr Turner explained that this was not viewed as contradictory because even if all assets are invested on a sustainable equity basis, there will be currently carbon intensive companies which have committed to a clear trajectory towards net zero. The proposed wording retains flexibility to invest in those transitioning companies, subject to regular review.

Cllr Swash announced his intention to move an amendment to the strategy with reference to the final two targets within the listed equity portfolio (Page 330-331): For the target beginning "by 2025" he proposed to delete "70%" and replace this with "90%", and in the target beginning "by 2030" he proposed to replace "at least 90% of companies" with "all companies" and delete the phrase "or are subject to engagement to achieve this objective". He felt that this gave a clear and measurable course of action.

Cllr Swash advised that his understanding is that other local authorities aim to be totally divested by 2030, and felt that by comparison, expecting carbon

intensive companies to have a net zero plan in place was a relatively minor requirement. He also questioned what criteria the Fund would use to come to a decision on which companies to divest from in order to meet the 90% target, and felt that this was unclear. Finally he felt that specifying the number of companies rather than percentage of investments by value compromises the effectiveness of the strategy as it would enable the Fund to purchase single shares of little value in companies that have plans in place, in order to meet the target, without divesting from any carbon intensive companies. He felt that his proposed changes made clearer the intention of his original motion to amend the ISS, and that by 2025 the Fund would have a non-binding yardstick to measure progress against, while being unambiguous of the requirements by 2030. He also felt that it cleared up any confusion around percentages.

Mr Turner acknowledged that there were several complicated elements to Cllr Swash's amendments and suggested that a detailed response be provided to this outside the meeting to appropriately and carefully consider this. He highlighted that the policy is not limited to companies only involved in fossil fuel sectors and is more comprehensive across all sectors of the economy.

Mr Hibbert commented that it would be difficult to accept the amendment without seeing a detailed response which may influence the outcome.

Cllr Swash motioned to amend the ISS. Addressing the final two targets within the listed equity portfolio on Pages 330-331 of the pack, the amendment was:

- Regarding the target beginning "by 2025": to delete "70%" and replace this with "90%",
- Regarding the target beginning "by 2030": to delete "at least 90% of companies" and replace this with "all companies", and to delete the phrase "or are subject to engagement to achieve this objective".

Cllr Wedlake seconded this motion. A vote by show of hands resulted in a majority against the amendment. Mr Turner confirmed that a detailed written response to the proposal would still be provided for the Committee.

Cllr Wedlake commented that while he recognised there was still work to be done going forward, he was grateful for the input of all parties in contributing to the progress made by the Committee on this matter.

A vote by show of hands was carried out to agree the recommendation for this item. The majority voted in favour. Cllr Swash voted against the recommendation.

RESOLVED:

The Committee noted, commented on, and approved the revised RI Policy of the ISS, for consultation.

7. **GOVERNANCE UPDATE AND CONSULTATIONS**

RESOLVED:

The Committee considered the update.

8. **PENSION ADMINISTRATION/COMMUNICATION UPDATE**

RESOLVED:

The Committee considered the update.

9. **INVESTMENT AND FUNDING UPDATE**

Mr Hibbert asked if the Fund was able to consider a counterparty other than JP Morgan within the Cash and Risk Management Framework. Mr Dickson explained that while there are other large banks available, when the mandate was initiated, JP Morgan was selected through a comprehensive review process which considered factors including implementation, ESG and fees. He noted that the alternative counterparties are likely to also be investment banks and there is no perfect option available.

Mr Hibbert asked how often this selection is under review. Mr Dickson explained that there is an annual review process, however the process of selecting a manager is initiated based on whether JP Morgan are fulfilling their role.

RESOLVED:

The Committee considered, noted, and commented on the update.

9. **ECONOMIC AND MARKET UPDATE AND INVESTMENT STRATEGY AND MANAGER SUMMARY**

RESOLVED:

The performance of the Fund over periods to the end of June 2023 was noted by Committee along with the Economic and Market update.

10. **FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK**

RESOLVED:

The Committee noted and considered the contents of the report and the various actions taken.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the remainder of the meeting by virtue of exempt information under Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

10. WALES PENSION PARTNERSHIP

This agenda item was presented and discussed.

RESOLVED:

- a) The Committee approved the evaluation criteria for the WPP Operator procurement as 75% quality and 25% price.
- b) The Committee noted the WPP reports on stock lending and engagement and agreed that they should be circulated to Committee members in advance of Committee meetings, but should not be included in future CPF agendas.
- c) The Committee discussed and agreed the CPF response to the WPP stewardship themes review.

10. PROPOSED ADMINISTRATION TEAM RE-STRUCTURE

This agenda item was presented and discussed.

RESOLVED:

- a) The Committee approved the changes to the organisational structure of the Pensions Administration Team.
- b) The Committee noted the initial increase in annual staffing cost of £113,000.

11. FUTURE MEETINGS

The Chair asked the Committee to note the following future Committee meeting dates:

- Wednesday 29 November 2023
- Wednesday 28 February 2024
- Wednesday 20 March 2024
- Wednesday 19 June 2024

RESOLVED:

The Committee noted the upcoming Committee dates.

The Chairman thanked everyone for their attendance and participation. The next formal Committee meeting is on 29 November 2023. The meeting finished at 11:16am.

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Chairman