

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 29 November 2023
Report Subject	Investment and Pooling Update
Report Author	Graduate Investment Officer

EXECUTIVE SUMMARY

An Investment and Pooling Update is on each quarterly Committee agenda.

There is a separate agenda item for Funding and Investment Performance.

This update includes matters that are for noting which include:

- Progress with the items on the Business Plan 2023/24.
- Wales Pensions Partnership (WPP)
- Responsible Investment Update
- Private Markers Update
- Additional Voluntary Contributions Review (AVC)
- Delegated responsibilities – actions taken by Officers since the last Committee meeting.
- Risk register – there have been no changes to risk levels since the last Committee meeting.

The Head and Deputy Head of Clwyd Pension Fund continue to assist the Host Authority (Carmarthenshire County Council) and the WPP Oversight Adviser (Hymans Robertson) with their respective roles, as well as representing the interests of the Clwyd Pension Fund on the Officer Working Group and various WPP sub-groups.

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>Business Plan Update</p> <p>Appendix 1 provides a summary of progress concerning the Investment and Funding section of the Business Plans for 2023/24. Key tasks to note are as follows:</p>

	<ul style="list-style-type: none"> • F1 (Investment Strategy Implementation) – This will be finalised as part of the Investment Strategy Review referred to in agenda item 4. • F2 (Climate Change, TCFD and TNFD) – Refer to agenda item 6. • F3 (UK Stewardship Code) – Completed. • F4 (LGPS Investment Related Developments) – Responded to all consultations. • F5 (Asset Pooling) – All tasks are on target. 																				
1.02	<p>Wales Pension Partnership (WPP)</p> <p><i>Joint Governance Committee (JGC)</i></p> <p>The last WPP JGC meeting was held on 20 September 2023. The draft minutes of that meeting are attached as Appendix 2.</p> <p>The JGC considered or approved the following:</p> <ul style="list-style-type: none"> • An update from the Host Authority confirmed the Operator procurement process remains on target. The Fund’s Deputy Head sits on the procurement evaluation panel and WPP will seek approval from the Committee to appoint the successful candidate in March 2024. • A review of the Training & Resources and Communication Risks was updated to reflect the changes made during Q3 2023. • The new Breaches and Errors Policy was approved and uploaded to the WPP website. • The sale of Link Fund Solutions to Waystone was completed in October 2023. • An update on WPP’s liquid assets’ investment performance was provided to June 2023 and that for Clwyd Pension Fund investments held during the year to 30 June 2023 is detailed in the table below. <table border="1" data-bbox="304 1301 1369 1529"> <thead> <tr> <th>Mandate</th> <th>Inception</th> <th>Current Net Asset Value</th> <th>Performance</th> <th>Benchmark</th> </tr> </thead> <tbody> <tr> <td>Global Opportunities</td> <td>Feb 19</td> <td>N/A</td> <td>11.36%</td> <td>10.53%</td> </tr> <tr> <td>Multi Asset Credit</td> <td>Aug 20</td> <td>c.£231m</td> <td>0.08%</td> <td>5.26%</td> </tr> <tr> <td>Emerging Markets</td> <td>Oct 21</td> <td>c.£109m</td> <td>(8.19)%</td> <td>(6.80)%</td> </tr> </tbody> </table> <p>The summary table will be updated in future to reflect the June 2023 transition from Global Opportunities Equity to Sustainable Active Equity. The Sustainable Active Equity valuation as at 30 September 2023 was c.£188m.</p> <p>Further information on the topics highlighted above is available in the full public agenda here.</p>	Mandate	Inception	Current Net Asset Value	Performance	Benchmark	Global Opportunities	Feb 19	N/A	11.36%	10.53%	Multi Asset Credit	Aug 20	c.£231m	0.08%	5.26%	Emerging Markets	Oct 21	c.£109m	(8.19)%	(6.80)%
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1.03	<p>Responsible Investment Update</p> <p><u>Clwyd Pension Fund</u></p> <p><i>The Pensions Management Institute (PMI)</i></p> <p>The Fund has produced a video showcasing our impactful investments in Wales. This visual presentation focuses on our substantial £50 million</p>																				

	<p>commitment to the development of Clean Energy Infrastructure in collaboration with Capital Dynamics, and our partnership with Development Bank Wales, highlighting our commitment to investing in Small and Medium Enterprises (SMEs) in Wales. The video was featured at the Pensions Management Institute’s conference on 23 November 2023, and it is intended that the 5-minute video will be shown at Committee.</p> <p><i>PLSA Pension Scheme Investment in Illiquid Assets: Case Studies</i></p> <p>PLSA asked LGPS funds to provide case studies of their investments in private markets. The Fund responded with details of its 6% allocation to local and impact investments and is pleased to have been included in the final publication, alongside other prominent LGPS funds. The Case Studies are available here.</p> <p><i>FRC UK Stewardship Code 2020</i></p> <p>Following the August 2023 Committee, the Fund submitted its Stewardship Code 2020 ahead of the October 2023 deadline, reaffirming its commitment to responsible investment practices. Having achieved signatory status last year, the Fund actively seeks to foster transparent, accountable, and sustainable stewardship of assets. The Fund aims to uphold robust governance, promote long-term value, and advance ethical business practices. The result of the Fund’s submission will be communicated once the Stewardship Code assessment process concludes in February 2024.</p> <p><i>Task Force on Climate-Related Financial Disclosures (TCFD)</i></p> <p>The Fund, with support from its investment consultants Mercer, has drafted its TCFD report to enhance transparency and refine how it communicates, evaluates, and handles climate-related risks and opportunities. It is believed that the report will assist stakeholders to understand the potential impact of climate change on the Fund, emphasizing informed decision-making and a dedication to long-term sustainability in all activities. Additional details on this matter can be found in agenda item 6, along with an infographic for scheme members and employers.</p>
1.04	<p><u>WPP</u></p> <p><i>Responsible Investment Working Group (RIWG)</i></p> <p>The Fund’s key priorities within its Responsible Investment (RI) policy include enhancing reporting on RI matters.</p> <p>The Responsible Investment sub-group (RIWG) has met on three separate occasions since the Fund’s last Committee meeting in August 2023. The next meeting is scheduled for 22 February 2024. The main areas discussed during the last meeting were:</p> <ul style="list-style-type: none"> • Stewardship themes – these were finalised ahead of WPP’s Stewardship Code submission. • Climate and ESG risk reports for the Multi Asset Credit and Emerging Markets Equity sub-funds were presented to the Constituent Authorities.

- Robeco provided an update on the voting and engagement work they have undertaken during 2023.

Responsible Investment (RI) reporting has now been developed by WPP. The RI report for Q3 2023 summarises WPP's sub-fund stock exposures, including voting and engagement, securities lending, climate, and ESG metrics and is included in Appendix 3. The report has been provided to each Constituent Authority and includes the three sub-funds in which Clwyd Pension Fund is invested. As at 30 September the Fund was not invested in the Global Opportunities sub-fund but it is included for reference as the report includes engagement with companies held within that sub-fund during the period. The Global Opportunities sub-fund will not be included in future as the Fund has now fully divested.

The private quarterly WPP Engagement Report and Securities Lending Report will continue to be directly shared with committee members.

Securities Lending

Securities Lending involves the owner of shares or bonds transferring their ownership 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, generate income and incrementally increase fund returns for investors.

Northern Trust are responsible for managing any Securities Lending within the WPP sub-funds on behalf of the WPP.

Quarterly Securities Lending reports are presented at each WPP Joint Governance Committee (JGC). The results below were presented to the JGC in September 2023.

The total amount of WPP net revenue for Securities Lending during the quarter to June 2023 was £248,214. The Clwyd Pension Fund is only invested in three funds which generate revenue, of which our aggregated share can be found in the table below.

WPP Sub-fund	WPP Net Revenue	CPF Net Revenue
Global Opportunities Fund (4%)	£101,247	£4,050
Emerging Markets Equity (33%)	£6,681	£2,205
Multi Asset Credit (35%)	£10,485	£3,670
Total	£118,413	£9,925

The Fund transitioned from WPP Global Opportunities to WPP Sustainable Active Equity Fund in June 2023, which will not utilise the Securities Lending function.

1.06

Private Markets Update

All future commitments to Infrastructure, Private Debt, and Private Equity investments will be made through WPP by the appointed Allocators. The Fund's strategic allocation to these asset classes is 19%.

Mercer will continue to assist Fund Officers in identifying Local and Impact investments, which has a strategic allocation of 6%, until WPP can accommodate the Fund's ambitions in this area. The Fund continues to explore opportunities for investment in the local Clwyd area.

1.07	<p><u>Clwyd Pension Fund</u></p> <p>Upon Mercer’s recommendation, the Fund has undertaken a new Private Debt investment since the last Committee, which was agreed as part of the 2022/23 commitment plan before the WPP Allocator was operational.</p> <table border="1" data-bbox="308 315 1370 389"> <thead> <tr> <th>Asset Class</th> <th>Fund</th> <th>Commitment</th> </tr> </thead> <tbody> <tr> <td>Private Debt</td> <td>Ambienta, SCO I</td> <td>€12m (£10m)</td> </tr> </tbody> </table> <p>Ambienta is a new manager and a recent addition to the Fund's relationships. As a European sustainability-focused alternative asset manager, they obtained B Corp certification in 2019. The Sustainable Credit Opportunities fund is designed to invest in sustainable private corporate credit in Europe.</p>	Asset Class	Fund	Commitment	Private Debt	Ambienta, SCO I	€12m (£10m)										
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1.08	<p><u>WPP</u></p> <p>The following commitments have been agreed for the first Private Markets vintages with the WPP Allocators from April 2023.</p> <table border="1" data-bbox="346 781 1332 934"> <thead> <tr> <th>Allocator</th> <th>Asset Class</th> <th>Committed</th> <th>Deployed</th> </tr> </thead> <tbody> <tr> <td>Russell Investments</td> <td>Private Credit</td> <td>£50m</td> <td>c.£6.1m</td> </tr> <tr> <td>GCM Grosvenor</td> <td>Infrastructure</td> <td>£64m</td> <td>c.£7.4m</td> </tr> <tr> <td>Schroders</td> <td>Private Equity</td> <td>£60m</td> <td>c.£8.9m</td> </tr> </tbody> </table> <p>The WPP Allocators are tasked with appointing private market managers. All three Allocators have now started to deployed capital on behalf of WPP within their respective asset classes.</p> <p>The Real Estate tender exercise closed on 17 November 2023, and the process to appoint a Property Allocator is now underway.</p>	Allocator	Asset Class	Committed	Deployed	Russell Investments	Private Credit	£50m	c.£6.1m	GCM Grosvenor	Infrastructure	£64m	c.£7.4m	Schroders	Private Equity	£60m	c.£8.9m
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1.09	<p>Other Matters</p> <p><i>2023 Additional Voluntary Contribution (AVC) Review Update</i></p> <p>Every year, Mercer as the Fund’s Investment Consultant, carries out a review of the Fund’s AVC arrangements which are with Prudential and Utmost. The review looks at the Fund’s AVC providers and considers the AVC valuations, performance and charges, and background information on the AVC providers.</p>																
1.10	<p>The findings of the review are included in the report at Appendix 4, and the main points are:</p> <ul style="list-style-type: none"> - Out of the Fund’s 14 unit linked AVC holdings held with Prudential, eight outperformed their respective benchmarks over the 1 year period to the 31 March 2023, and ten outperformed their benchmarks over the 3 and 5 year periods, noting that one fund did not have performance over the 5 year period due to the date it was inception. - The Fund also has a With-Profits holding with Prudential which does not have a benchmark but returned 4.5%, 6.0% p.a. and 4.9% p.a. over the 1, 3 and 5 year periods to the 31 March 2023. - Out of the Fund’s 6 unit linked AVC holdings held with Utmost, five outperformed their respective benchmarks over the 1 year period to the 31 March 2023, with three outperforming over the 3 year period and 2 outperforming over the 5 year period, noting that one fund did 																

	<p>not have performance over the 5 year period due to the date it was inceptioned.</p>
1.11	<p>The type of AVC arrangements discussed in the review are:</p> <p><u>Unit-linked funds</u></p> <ul style="list-style-type: none"> - Members purchase units in funds which invest according to their particular objective. - Returns to members are in the form of changes in the value of the unit price. - Members realise a profit or a loss from an investment when the units in the fund are sold. - For Clwyd Pension Fund, members are invested in 19 unit linked funds across Utmost and Prudential. <p><u>With profit funds</u></p> <ul style="list-style-type: none"> - The costs of running these are largely deducted from the fund and what is left over is available to be paid to the with profits investors as “bonuses”. - To avoid big changes in the size of bonuses each year, the insurer will smooth returns. - Guarantees can necessitate a more cautious underlying investment strategy, to maintain the insurer’s solvency. This can severely restrain future investment performance for other policyholders too. - Insurers can impose a Market Value Reduction (MVR) if disinvestment is other than (usually) the pre-selected retirement date or prior death and may be viewed by a member as a financial penalty on transfer. - Historically, payout examples were provided via insurers’ regulatory returns, but these ceased to be available in 2017 due to the Solvency II Directive. <p><u>Charges</u></p> <ul style="list-style-type: none"> - The fees charged by both Prudential and Utmost are shown in the report.
1.12	<p>Mercer have recommended the following within the review:</p> <ul style="list-style-type: none"> • That AVC members are sent a communication to remind them of their AVCs, the purpose of AVCs and the choices available to them. • Members should be periodically reminded of the key characteristics of with-profits funds and the risk of disinvesting before maturity. It should be noted that members in with-profits funds with Prudential have terminal bonuses applying on their policies, which are not guaranteed. Market Value Adjustments may also be applied at the point of withdrawal. <p>Annual monitoring of the AVC arrangements should continue, with the date of the next review being November 2024. More generally, Mercer recommend that the Fund regularly reviews the AVCs held, to check whether members have drawn any of their Defined Benefits from the Fund. If this is the case, they may benefit from a reminder that their AVCs are still available and invested.</p>
1.13	<p><i>Annual Meeting Videos</i></p>

	<p>The Fund has recently released a series of informative videos designed to offer employers a comprehensive overview of the detailed work conducted by Fund Officers, Governance Advisors (Aon), Investment Consultants, and the Fund Actuary (Mercer) over the past year. We believe these videos serve as a valuable tool, providing more flexibility for employers to stay informed and engaged with the Fund's ongoing efforts. This modern solution replaces the Fund's previous Annual Joint Consultative Meeting (AJCM).</p>
1.14	<p><i>Autumn Statement and Response to Next Steps on Investments Consultation</i></p> <p><i>At the time of finalising this report further announcements are expected from Government both in the Autumn Statement by the Chancellor and a Response to its Consultation on the Next Steps in Investment from DLHUC. A verbal update will be provided at Committee.</i></p>
1.15	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated certain responsibilities to Officers or individuals. Appendix 5 highlights where the use of delegated powers have been utilised. In summary:</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). • Private Market commitments are made in-line with the Fund's Investment Strategy, the Wales Pension Partnership, and, for Local and Impact opportunities, recommendation from Mercer, the Fund's Investment Consultant. Further details can be found in section 1.07 of this report.

2.00	RESOURCE IMPLICATIONS
2.01	<p>The Head and Deputy Head of the Clwyd Pension Fund dedicate significant time to deliver and monitor the WPP Business Plan, which is not separately acknowledged in the Clwyd Pension Fund budget. Consequently, this leads to increased dependence on external advisors for local matters.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 6 provides the Dashboard and Risk Register which highlights current risks relating to investments and funding matters.
4.02	<p>There have been no changes to risk levels since the last Committee meeting. Three risks remain behind target, these include:</p> <ul style="list-style-type: none"> • No.3 – The current market environment poses an increased risk to investment returns, and subsequently meeting investment targets.

	<ul style="list-style-type: none"> • No.4 – The current high inflationary environment poses an increased risk to the actuarial assumptions of Fund liabilities. • No.9 – The Fund’s long-term Investment Strategy fails to deliver on its ambitions and objectives as a Responsible Investor. <p>Fund Officers, its Investment Consultants and Fund Actuary (Mercer), and Governance Advisors (Aon) continue to monitor these risks regularly.</p>
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5.00	APPENDICES
5.01	<p>Appendix 1 – 2023/24 Business Plan</p> <p>Appendix 2 – WPP JGC Draft Minutes 20 September 2023</p> <p>Appendix 3 – WPP Responsible Investment Report</p> <p>Appendix 4 – AVC Review 2023</p> <p>Appendix 5 – Delegated Responsibilities</p> <p>Appendix 6 – Risk Dashboard and Register – Investments and Funding</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>1.02 The full JGC agenda is available here: https://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CId=234&MId=6589&Ver=4</p> <p>1.03 The PLSA Case Studies are available here: https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2023/Pension-Scheme-Investments-in-Illiquids-Case-Studies-from-the-Pensions-Sector-Nov-2023.pdf</p> <p>Contact Officer: Ieuan Hughes, Graduate Investment Officer, Clwyd Pension Fund</p> <p>E-mail: ieuan.hughes@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 Mercer, the Fund Consultant.</p> <p>(e) AP – Advisory Panel – a group consisting of Flintshire County Council</p>

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.
- (r) **Additional Voluntary Contribution (AVCs)** – additional contributions made by members to the Fund's Money Purchase AVC provider.
- (s) **B Corp Certification** – a designation awarded to businesses that meet rigorous standards of social and environmental performance, accountability, and transparency. These companies balance profit and purpose, considering the impact of their actions on various stakeholders, including employees, communities, and the environment.

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