

CLWYD PENSION FUND COMMITTEE

11 September 2024

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held as a hybrid meeting at County Hall at 2.00pm on Wednesday, 11 September 2024, with remote attendance available via Zoom.

PRESENT: Councillor Dan Rose (Chairman),

Councillors: Ted Palmer, Antony Wren

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

ALSO PRESENT (AS OBSERVERS): Elaine Williams (PFB Scheme member representative)

APOLOGIES: Cllr Dave Hughes, Cllr Jason Shallcross

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

Officers/Advisers comprising: Karen Williams (Pensions Administration Manager), David Bateman (Pension Fund Accountant), Matt Grundy (Graduate Accountant), Ieuan Hughes (Graduate Investment Trainee), Morgan Nancarrow (Governance Administration Assistant – taking minutes), Janet Kelly (Democratic Services Officer), Ceri Shotton (Democratic Services Officer).

13. DECLARATIONS OF INTEREST (including conflicts of interest)

The Chairman 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.

In relation to the Investment, Funding and Pooling Update Cllr Wedlake highlighted that he is a member of the Palestine Solidarity Campaign.

There were no new declarations of interest.

14. MINUTES 19 JUNE 2024

The minutes of the meeting of the Committee held on 19 June were agreed.

RESOLVED:

The minutes of 19 June 2024 were received, approved, and will be signed by the Chairman.

15. CLWYD PENSION FUND ANNUAL REPORT AND ACCOUNTS 2023/24

Mr Bateman took the Committee through this report, highlighting:

- The audited Annual Report and Accounts are required to be published before December 1st each year. The Section 151 Officer has reviewed the accounts and confirmed he is happy with their quality and the underlying assumptions prior to submission to Audit Wales.
- New national guidance on LGPS pension fund annual reports was issued in April 2024, with which according to guidance the Fund has made its best endeavours to comply except where the effort or cost required would be disproportionate. This includes changes to the structure of the report based on guidance intended to make pension fund annual reports more uniform across the LGPS.
- He thanked those involved in the preparation of the draft annual report, which was presented to the Committee for noting and comments. The Fund will continue to work with Audit Wales to provide a final audited Annual Report. Any amendments will be reported at the November Committee meeting along with a formal Audit Opinion, and officers will recommend approval of the final document.
- Audit of the Annual Accounts is underway and no significant issues have been raised to date. The draft report was submitted to Audit Wales by the 1st August 2024 deadline, but has not yet been audited.

Mr Bateman took the Committee through the first sections of the Annual Report.

Mrs McWilliam presented the independent adviser report, and the Pension Board annual report. She thanked the Board members for their work and commitment to the Fund, and thanked the Committee and officers for working openly with the Board and embracing its involvement with the Fund. She summarised that there is exceptional management of the fund and 2023-24 was another successful year from a governance perspective, and noted the risk posed by the magnitude of work relating to national developments which are out of the Fund's control.

Mr Bateman took Committee through the financial report and accounts, highlighting:

- Improvement in net asset value from 2.3bn to 2.48bn mainly due to positive market movement.
- Decreased contributions due to the outcome of the 2022 Actuarial Valuation.
- Increased Pensions Payable due to the April 2023 inflationary pensions increase.
- Overall greater expenditure compared to income excluding fees and investment income. This was broadly in line with the projected forecast.
- An overview of investment performance and fees.
- The estimated funding position was 109% as at 31 March 2024.

Finally, he asked members to note the draft response to the Audit Enquiries Letter from Audit Wales for 2023-24.

Cllr Wedlake noted the commentary relating to underperformance against the benchmark on page 119. He acknowledged the need to look at the bigger picture around the positive funding position, but that the numbers could indicate that if current trends continue the Fund might underperform against the 10 year benchmark, as well as the 1-5 year

benchmark. He felt that this needed further explanation. Mr Turner confirmed that this will be looked at and further wording will be provided.

With reference to the commentary on page 140 on the loss of performance during the Fund's website review, Cllr Wedlake also requested a summary of what improvements will be made to ensure performance will return to previous levels in future. Mrs K Williams clarified that the dip in performance was due to the website being down while it was being updated as part of the website review. At the time of writing, the review was in progress, however this has now been completed and the improvements made as part of this work should naturally rectify the performance level over time. She confirmed that the wording in the report will be updated to clarify this.

RESOLVED:

The Committee considered and commented on the draft Annual report and Accounts, and noted the audit enquiries letter and response.

16. DRAFT STEWARDSHIP CODE SUBMISSION

Mr Turner, the Fund's Investment Consultant, took the Committee through this report. He explained that work is progressing well, and the Fund should be in a position to make its Stewardship Report submission before the end of October deadline. The Committee was asked to consider the draft report, noting the areas yet to be updated, and provide any comments or suggestions to be incorporated before the final submission. He acknowledged that a huge amount of work goes into the production of this report, and while the FRC (Financial Reporting Council) has made some changes to the requirements intended to streamline the process, the report is still a significant commitment for the Fund.

RESOLVED:

The Committee considered the draft submission, and delegated responsibility for approval of the final submission to the Head of Clwyd Pension Fund.

17. GOVERNANCE UPDATE

Mrs McWilliam, the Fund's Independent Adviser, took the Committee through this report, highlighting areas that have developed and those areas relevant to the recommendations including:

- The joint trade unions have now been in touch with a nomination to fill the vacant Scheme Member Representative position on the Pension Board, and it is hoped that the appointment will be confirmed before the next Pension Board meeting.
- The Fund previously wrote to WPP regarding its governance arrangements. A response from WPP has now been received and will be discussed as part of the November workshop.
- Ahead of this Committee meeting, a briefing session for Committee and Board members was held regarding the HMT Pensions Review, and the Committee was now being asked to agree the process for responding to the Call for Evidence.

- The summary of the most recent SAB meeting has now been made live. It includes that SAB is seeking legal advice on whether it needs to update its guidance on the meaning of fiduciary duty for LGPS administering authorities.

Mrs McWilliam highlighted the recommendations relating to the Fund's Conflicts of Interest Policy, and the Over and Under Payments Policy which as a technical policy has previously been delegated to officers to update other than strategic elements. She also highlighted upcoming events on 26th November, which are the Annual Employer and Scheme Member Representatives meeting in hybrid format, as well as an essential briefing session for Committee members which Board members should attend.

The Chair explained that each recommendation would be discussed and considered individually. The first recommendation was supported.

With respect to the second recommendation, the Chair confirmed the view at the briefing was that the Committee agreed to delegate the response to the Call for Evidence to the Head of Clwyd Pension Fund, and that officers will circulate the draft response for Committee members to provide any comments to be incorporated. Mrs McWilliam suggested that this delegation could also apply to other future consultations relating to the Government's pensions review which fall outside the Committee cycle. Cllr Palmer said he was happy with this, with the caveat that if officers or the Committee finds that the issue requires more attention than an email, a Special Meeting may be called. This update to the recommendation was proposed, seconded and agreed by the Committee.

The third and fourth recommendations were supported.

The Chair proposed a motion to add an additional action for the Chair to write to the Government stating that a three week consultation period is not sufficient for local government responses given the cycle of meetings and the statutory processes relating to those. This was seconded and agreed by the Committee.

RESOLVED:

- a) The Committee considered and commented on the update.
- b) The Committee noted the Government's Pension Review and agreed the process for responding to consultations outside the Committee cycle.
- c) The Committee approved the updated Conflicts of Interest Policy
- d) The Committee approved the updated decision-making matrix in the Policy on the Overpayment and Underpayment of Pension Scheme Benefits.
- e) The Committee agreed that the Chair will send a letter to the government stating that a three week consultation period is too short to be suitable for local government Committees to respond.

18. INVESTMENT, FUNDING AND POOLING UPDATE

Mr I Hughes presented this report. He took the Committee through key points including the Risk register and its new format, and progress against key business plan tasks. The update on Wales Pension Partnership (WPP) matters included:

- Key discussions and outcomes at the 17 July Joint Governance Committee (JGC) meeting, highlighting the new JGC Chair and reappointment of the WPP real estate allocators.
- It was noted that the Fund, in partnership with Mercer, has developed a Responsible Investment (RI) template that follows the Institutional Investors Group on Climate Change (IIGCC) guidance, aimed at capturing key climate and nature-related metrics within the Fund's Private Markets portfolio. The data collected as part of this exercise will be integrated into the Fund's annual TCFD and Taskforce on Nature-related Financial Disclosures (TNFD) reporting.
- Finalising the June 2024 RI report, which will cover WPP's sub-fund stock exposures, including voting and engagement activities, securities lending, climate metrics, and ESG metrics. This report will be shared with Committee at the next meeting.
- Comments were requested from Committee members on the engagement and stewardship themes, in order to feed back to WPP.

Cllr Palmer noted his disappointment that there was no statement at the July JGC acknowledging or thanking him for his contribution to JGC over the past few years.

Mr I Hughes also highlighted that the Government Actuary's Department has now completed its cost management process allowing for the costs of the McCloud judgement. Mr Middleman explained the cost management process has concluded that no changes were required to the scheme to rebalance costs between members and employers.

The Chair explained that he had received a number of queries regarding potential investments that the Fund has with ties to companies involved in the Israeli government's military occupation of Palestine. The queries had also cited research published by the Palestine Solidarity Campaign. A request from a Committee member had also been made to raise this as an item for discussion on today's agenda. He had also been made aware that the LGPS Scheme Advisory Board had received similar queries and was subsequently seeking legal advice on this. Given there was not sufficient time for officers to seek appropriate advice and prepare a report on this, the Chair proposed that an update be brought to the November meeting.

Cllr Wedlake said that there is a clear question around human rights with regards to the conflict in Palestine and continued breach of international laws. He recognised the resource implications for the Fund, but on the basis of members who had written to him he requested a preliminary report to be brought to the November Committee with details of investments the Fund currently holds which could be associated as supporting the action being taken by Israel's government and military.

Mr Palmer asked for further clarification on the second recommendation. It was clarified that this is to bring a preliminary update to the November Committee on what investments the Fund holds, both through WPP and directly, in the United Nations database of companies identified as being involved in activities related to Israeli settlements in the Occupied Palestinian Territory, including East Jerusalem.

Mr Latham noted that human rights are on the list of WPP engagement topics, and encouraged members to make their view heard through this also.

RESOLVED:

- a) The Committee noted and commented on the update.
- b) To bring to the 27 November meeting a preliminary update on the Fund's investment holdings, both through WPP and directly, in the UN database.

19. FUNDING AND INVESTMENT PERFORMANCE UPDATE

Mr Turner and Mr Middleman presented this report.

Mr Middleman presented the funding position and explained the full set of 'green traffic lights' in the flightpath appendix with everything working as expected.

Mr Turner took the Committee through the investment and performance highlights including:

- Positive outlook for return seeking assets.
- Underperformance of the WPP Sustainable Active Equity fund – it was explained that the Fund has been invested in this sub-fund for a relatively short period of one year, and a meaningful conclusion of performance needs at least 3 years. A key reason for the underperformance to date was an underweight position to large cap technology related stocks in the US.
- The Multi Asset Credit and Tactical Asset Allocation performed in line with expectations, and there were no significant concerns regarding private markets.
- The Fund's cash allocation appears to be relatively high, but this is as expected following strategy changes since de-risking activity earlier in the year. Given known asset movements, the cash allocation was projected to decrease in-line with the Fund's target in the coming months. .

Cllr Palmer noted the 108% funding position and asked if this position changed significantly the impact would fall on employers and their budgets? Mr Middleman confirmed potentially yes if it fell below the expected funding level as any gap in funding would fall on employers. There could also be other factors affecting the position and this would be considered as part of the valuation. Mr Middleman highlighted also that stability is supported by the flightpath strategy in place. This provides some protection to the funding position and contribution stability. Cllr Palmer noted that this would affect only employer contributions, not employee contributions, which Mr Middleman confirmed as member contributions are set by Government not the Fund.

RESOLVED:

The Committee noted and commented on the update.

20. ADMINISTRATION AND COMMUNICATIONS UPDATE

Mr Hibbert commented that he liked the style and presentation of the update. Mr Palmer thanked the team for their hard work.

RESOLVED:

The Committee considered and commented on the update and provided feedback on the format of the new summary report.

21. FUTURE MEETINGS

The Chairman asked the Committee to note the following future Committee meetings:

9.30 am on Wednesday 27 November 2024

9.30 am on Wednesday 19 February 2025

9.30 am on Wednesday 19 March 2025

9.30 am on Wednesday 18 June 2025

RESOLVED:

The Committee noted the upcoming Committee dates.

The Chairman thanked everyone for their attendance and participation. The next formal Committee meeting is on 27 November in hybrid format and will be followed by a training session. He reminded members of upcoming events. The meeting finished at 3:11pm.

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Chairman