CLWYD PENSION FUND COMMITTEE
9 June 2021

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 9 June 2021.

PRESENT: Councillor Ted Palmer (Chairman)
Councillors: Ralph Small, Dave Hughes, Tim Roberts, Haydn Bateman.

CO-OPTED MEMBERS: Councillors Nigel Williams (Wrexham County Borough Council), Julian Thompson-Hill (Denbighshire County Council) and Mr Steve Hibbert (Scheme Member Representative).

ALSO PRESENT (AS OBSERVERS): Elaine Williams (PFB Scheme Member Representative) and Phil Pumford (PFB Scheme Member Representative)

APOLOGIES: Councillor Andy Rutherford (Other Scheme Employer Representative) and Gary Ferguson (Corporate Finance Manager)

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Head of Clwyd Pension Fund), Karen McWilliam (Independent Adviser – Aon Hewitt), Paul Middleman (Fund Actuary – Mercer), Kieran Harkin (Investment Adviser – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Karen Williams (Pensions Administration Manager), Paul Vaughan (Clwyd Fund Accountant), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee).

Guest speakers presenting comprising: Hill Gaston (Mercer) and Sabel Wiliam (Audit Wales)

The Chairman welcomed Cllr Hughes back to the Committee as the replacement for Cllr Mullin. The Chairman thanked Cllr Mullin for his valuable contribution to the Committee.

He also welcomed Ms Wiliam from Audit Wales who presented the annual audit plan in the agenda.

141. DECLARATIONS OF INTEREST (including conflicts of interest)

There were no declarations of interest.

142. **APPOINTMENT OF VICE CHAIR**

Following nominations by Councillors Hughes and Small, the Committee appointed Cllr Bateman as Vice Chair of the Committee.

RESOLVED:

The Committee appointed the Vice Chair and noted that the Chair and Vice Chair are therefore appointed as Member and Deputy respectively of the Joint Governance Committee for the Wales Pension Partnership.

143. **MINUTES 23 MARCH 2021**

The minutes of the meeting of the Committee held on 23 March 2021 were considered by the Committee.

On page 9 of agenda, Mr Hibbert referred to the discussion relating to the appointment of the Scheme Member Representative on the Joint Governance Committee ('JGC'). Mr Hibbert highlighted that the job description specified that the Scheme Member Representative should represent the interest of scheme members. He conveyed his concerns about the practicalities and potential discriminatory elements of the appointment process by the Wales Pension Partnership ('WPP')

RESOLVED:

The Committee confirmed as a correct record the minutes of the last meeting held on 23 March 2021.

144. **CLWYD PENSION FUND DRAFT AUDIT PLAN**

Mr Vaughan welcomed Ms Wiliam and noted that the Committee were responsible for the approval of the annual report including the accounts by the end of November. He confirmed that the draft accounts would be brought to the September Committee meeting.

Ms Wiliam presented the audit plan on page 17 and highlighted the following key points:

- The two financial audit risks were management override and the impact of COVID-19.

- She noted that management override was a risk for all bodies and was required for all audit plans.

- Whilst the impact of COVID-19 has increased pressures on staff resource and remote working, Ms Wiliam reassured the Committee that the impact of COVID-19 would not affect the work in respect of the audit plan.

- The three risks in respect of the financial statements were holdings in investments, the use of external investment managers and the transfer of assets to the WPP.

- The audit fee for 2021 on page 24 had no increase from the previous year.

- The final audit report will be presented at the November Committee meeting.

Cllr Bateman asked what management override is. Ms Wiliam confirmed this was a significant risk raised for all bodies in their audit plans to respond to ISA 240. The standard work for Audit Wales was addressing this risk so no concerns need to be raised.

RESOLVED:

The Committee noted the Audit wales plan.

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

The Chairman highlighted from the report that for the first time since Flintshire County Council became the administering authority, the Fund exceeded 100% funding level and was at 102% as per the report.

Mr Latham was delighted to report the fully funded position and confirmed that the Fund had grown from £300 million in 1996 to £2.1 billion now. He noted to the Committee that the history of the funding position was in the later investment and funding update item from Mrs Fielder.

He stated the following key points regarding the Fund’s road to a fully funded position:

- He believed a key reason for the success was the management of the Fund via the flightpath and risk management framework that is operating as expected.

- This has been achieved by the Fund through a diversified and lower risk portfolio.

- The level of hedging for inflation and interest rates has benefited the Fund positively.

- The equity protection provides an insurance, albeit this hasn't actually been needed given markets have continued to rise.

- By hedging the currency risk, the Fund gained £15.8 million since inception of this strategy.

- Another positive was that a further £100 million of collateral can be released whilst maintaining the same overall risk/return. This additional funding could be used for commitments to sustainable private markets assets in the future.

Mr Middleman noted that, as the funding level is over 100%, it had been agreed that consideration would be given to whether risk should be reduced further and, if so, what would be the implications for returns and ultimately the level and stability of employer contribution requirements. Mr Middleman explained the next steps in terms of considering any actions that should be taken and this will be discussed at the next FRMG meeting. On page 31, item 1.07 outlined potential next steps and actions for consideration which included doing nothing, reducing the equity exposure and/or increasing the hedging levels – in particular for inflation given the current uncertainty.

Mr Middleman confirmed that the funding level had continued to improve and was currently estimated to be around 103%.

Mr Everett asked how typical the Fund's financial position was against other LGPS Funds and other pension funds generally. Mr Middleman confirmed that this was linked to the strategy for each Fund. For example, other pension funds who had a higher equity allocation, would have seen a bigger improvement in funding position and vice versa. However, the Fund will have more stability compared to other pension funds, due to the protections in place e.g. the level of hedging and equity protection strategy. There is therefore likely to be less "boom" and "bust" type scenarios.

Mr Everett believed that if the Fund remained in a fully funded position at the next triennial valuation, considerations would need to be made around whether employers' contributions could be contained or reduced given fiscal challenges for employers in balancing their budgets. Mr Middleman agreed that this is a consideration and added that there needs to be a discussion with employers about the level of any reduction, given that the more contributions are reduced, the more likely they will drift upwards in future especially if the surplus is being "run off". This would be a key consideration in light of the balance between employer budgets in the short term and longer-term stability of contributions. Mr Middleman expected this discussion to take place with the major councils as part of the interim funding review later this year.

Mr Hibbert queried whether the Fund could reduce their exposure to fossil fuel intensive equities to help the Fund achieve the target of net zero commitment by 2050. Mr Middleman noted that the roadmap to a net zero commitment was central within the flightpath strategy so any changes would certainly have these objectives in mind. For example, the social and environmental impact will be central to where the c£100 million of collateral from the strategy is invested.

Cllr Williams asked whether the Fund should reduce their investments in fossil fuels given that the Fund exceeded a fully funded position as they could take the "hit" on selling them more easily. Mr Harkin said that this was going to be picked up as part of the next item on the agenda. He confirmed that the Fund did not have a great deal of exposure to fossil fuel intensive stocks but he believed that this should be one part of a holistic integration in achieving the net zero commitment.

Mr Harkin noted that the c£100 million of collateral from the flightpath strategy is a conservative estimate and has the potential to be utilised as part of the Private Market investments.

Cllr Bateman asked for clarification on the term FRMG. Mr Middleman confirmed that FRMG stood for the Funding and Risk Management Group and was set up as part of the Fund's governance structure. The group consists of Mr Middleman as Actuary, Nick Page as Risk consultant, Mr Harkin as Investment Consultant, Mr Latham as Head of the Pension Fund and Mrs Fielder as Deputy Head of Fund. Mr Latham is required to sign off matters discussed at the FRMG under the agreed delegations from the Committee.

RESOLVED:

The Committee noted and considered the contents of the report.

146. **RESPONSIBLE INVESTMENT ROADMAP**

Mr Latham stated that the two key responsible investment priorities that were being considered within this item of the agenda were setting and meeting climate change objectives and identifying sustainable investment opportunities. In relation to the first of these, the Committee were being asked to agree to adopt a 2050 net zero ambition for the Fund's investment strategy, however, Mr Latham made it clear that 2050 is the latest date that they would aim to achieve this by and hoped that further analysis would allow them to set a date earlier than 2050 and the second recommendation was for the Committee to agree the road map which included this further analysis

In relation to the second priority, Mr Latham explained that the Fund's investment advisor believed that sustainable global equities should form a material part of the Fund's equity portfolio. Therefore, he outlined the recommendation for the Committee to formally request the Wales Pension Partnership to offer an Active Sustainable Global Equity Sub-Fund. Given that this would need to go through the JGC and the other Funds in the WPP, the timescale for completion is expected to be approximately 12 to 24 months.

Mr Gaston summarised the progress that the Fund had already made in relation to climate change. He explained that a net zero target referred to achieving net zero emissions by balancing carbon emissions with carbon removal. The three key reasons for an investor to adopt a net zero target are as follows:

- Climate change science tells us that there are c10 years left to limit and mitigate the worst effects of climate change. Currently, we are on track for 2.9 degree warming by 2100. However, the Paris Agreement aims to limit warming to well below 2 degrees. To achieve this there needs to be an overall reduction in emissions of 45% by the year 2030 (based on 2010 levels) according to the IPCC — Intergovernmental Panel on Climate Change.

- Secondly, momentum is growing across different stakeholders, markets and technology. For example, technology developments have led to falling costs for wind and solar energy generation, and these are increasingly outcompeting fossil fuel alternatives such as coal.

- Lastly, it is likely we will see a form of a low carbon transition from the current economic model, which is reliant on fossil fuels, to a greener version of the economy.

Mr Gaston stated that TCFD stood for The Task Force on Climate-related Financial Disclosures. This is an international framework providing a number of climate change disclosure recommendations. It is expected to form the basis of the upcoming LGPS regulations that the Fund will need to adhere to.

Mr Gaston explained that when implementing a net zero target, the Fund would need a plan that includes credible, achievable targets as well as being able to meet financial targets. There were four steps involved in creating a plan:

1. Calculate the baseline – this includes current emissions, transition capacity and green exposures.

2. Analyse portfolio possibilities for implementing a portfolio wide transition by asset class.

3. Set measurable targets for reducing emissions and growing transition capacity, tested against different scenario pathways (for example a 2050 net zero target).

4. Implement a plan, drawing on outputs from each step.

He confirmed that Mercer would provide further details for the Committee to approve after their analysis at the November Committee meeting. Once targets and implementation plans were agreed, the Fund will update its policy and going forwards this would become an annual exercise.

Due to the Fund being c103% funded, Mr Hibbert restated the earlier question to whether this position could be used as an opportunity to achieve something now in regards of climate change by divesting from fossil fuel companies. Mr Gaston commented that the grey category in the slides represented high carbon intensive companies with low transition potential – this might include oil/gas companies as well as other high carbon companies, for example, in the steel & cement sectors. Therefore, the grey bucket did not only include fossil fuel companies. Mr Gaston added that some energy companies might be expected to transition their business models from an oil/gas focus to renewable sources of energy. Therefore, Mercer's analysis would highlight where these companies sit in terms of transition potential and help determine how the Fund might best manage these exposures going forward. In addition, through stewardship, Robeco would hold these companies to account and ensure their business models were transitioning over time.

Mr Hibbert believed that if one extraction company made a successful amount of carbon reduction, this would not mean that all companies would do the same. Mr Gaston agreed with Mr Hibbert, but stated his view was that a detailed analysis should be undertaken before decisions on how to manage 'grey' companies was made. Mr Everett agreed with the spirit of Mr Hibbert's comment but highlighted that in his view it is important that the Fund take time to have fuller information before making decisions, ensuring the consequences of such decisions are fully considered.

Mr Everett also added that he would like to learn more about the transition and implementation timing.

Cllr Thompson-Hill stated that given the complexity of this matter, he wondered how the Fund would communicate this decision to members (in particular those outside the Pensions Committee) and other stakeholders given that they may have no prior background knowledge or training. Mr Latham said that some information will be included within newsletters that are sent to members and he is also planning including an item at the annual joint consultative meeting. Mr Latham recognised the fact that a number of training sessions on RI and climate change had been held over within the last year with an aim of disseminating the complex information contained across a range of RI areas and aid the decision-making ability of the Committee. Mrs McWilliam agreed with Mr Latham and stressed the need for really clear communications around this. She also added that if there were changes to the investment strategy, the Fund would have an obligation to consult on these changes with the appropriate stakeholders. She also reminded the Committee that they set the investment strategy for the Fund, and it is then the responsibility for WPP to deliver this on their behalf, albeit practically there may be some challenges so this long period of notice will be helpful in achieving that.

Mr Harkin confirmed that, due to the emerging market equity transition to WPP being due to take place in October 2021, the equity allocation designated for the WPP is not yet fully invested. Russell select the underlying managers who then select the specific equity positions held in the WPP Global Opportunities Fund, although Russell aim to reduce the carbon intensity of the Fund by 25% through an overlay strategy. Mr Harkin added that the best ideas portfolio is discretionary and Mercer are putting together a responsible investment framework to overlay this and help inform how the Fund makes commitments going forward. Mercer are completing this work over the summer.

Cllr Williams asked if the majority of the c£25 million invested in fossil fuels within the Fund was directly through fund managers or via pooling. Mr Gaston confirmed that the WPP had global equity exposures of £5.6 million (out of the c£25 million of fossil fuels investments). Furthermore, between BlackRock and the Wellington Funds (which are not in the WPP), there was around £20 million invested in fossil fuels through funds held outside WPP. Mr Latham clarified that those mandates outside WPP will become managed by WPP as part of the October transition.

RESOLVED:

(a) The Committee agreed to adopt a 2050 Net Zero ambition for the Fund's investment strategy, noting this may be updated to an earlier date following further consideration and analysis.

(b) The Committee agreed the high level net zero work plan or roadmap as detailed in 1.07. This roadmap laid out the next steps required to set net zero target(s) underpinned by a credible implementation plan.

(c) The Committee agreed to formally request that the Wales Pension Partnership offer an Active Sustainable Global Equity Sub-Fund and that the necessary project to construct this Sub-Fund commences as soon as possible.

147. **GOVERNANCE UPDATE AND CONSULTATIONS**

On section 4.01 of the report, Mr Latham noted the current risks relating to the Fund as a whole. He added there was only one red risk across the Fund, which was an investment risk in responsible investment, but otherwise there had been a reduction in many areas risk which in his view was extremely positive given some of the recent challenges such as COVID-19.

Mr Latham noted the importance of Committee and Board members attending training sessions and conferences around the UK but recognised it may still not be possible and so welcomed views from Committee and Board members on this point.

RESOLVED:

The Committee considered and noted the update.

148. **PENSION ADMINISTRATION/COMMUNICATION UPDATE**

Mrs Williams referred to the TPR New Code consultation response which had been circulated separately. She noted the majority of the report related to standard items and also highlighted the additional item, which was the satisfaction survey to employers and members requesting feedback on service delivery.

Mr Hibbert thanked the team for all their hard work and efforts, evidenced by the excellent results in the report.

RESOLVED:

The Committee considered and noted the update.

149. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder noted the following key points about this item of the agenda:

- Page 187 and 188 highlighted the key milestones of the Fund and the historic funding levels since 1989.

- The Fund made three new investments in the Private Markets portfolio, in line with Fund requirements for sustainable private markets.

- Within impact and local investments, the two Funds agreed were Foresight Regional Fund III and Bridges Property Fund V. The Fund had previously invested in Bridges Property Fund IV.

- For the Private Equity portfolio, the Fund approved FSN Fund VI which had been recommended by Mercer. This investment had excellent ESG credentials and sustainable goals, which is ideal for the Clwyd Pension Fund.

- The cashflow analysis on page 184 outlined that the net contributions/benefits remained relatively stable over 2020/21. However, income from private markets exceeded the drawdowns, which helped the Fund move to a healthy cashflow position. Therefore, the Fund could have more money to allocate to sustainable investments.

RESOLVED:

The Committee considered and noted the report including the update for delegated responsibilities.

150. **POOLING INVESTMENT IN WALES**

Mr Latham stated the following key points about the pooling of the Fund's investments in WPP:

- Multi Asset Credit Fund and Global Opportunities Equity Fund performed ahead of benchmark.

- The Global Opportunities Equity Fund reduced carbon exposure by 25% in April and the Fund will receive reports on progress going forward.

- The transition for the Wellington Emerging Market equities will occur on 6th October 2021, which also includes a 25% carbon reduction.

- He noted the Responsible Investment sub-group, including Mrs Fielder as the Fund's representative on that sub-group, have completed lots of work regarding Responsible Investment.

- In addition, Fund officers have been working with WPP on a Private Markets portfolio in conjunction with Mercer, and the Committee will receive an update regarding this work at future Committee meetings.

RESOLVED:

The Committee considered and noted the report.

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

The Committee considered the Economic and Market update.

RESOLVED:

The Committee noted the Economic and Market update.

The Chairman thanked everyone for their attendance, updates at the Committee meeting, and hoped to see members at the upcoming training events. The next formal Committee meeting was on 1 September 2021.

The meeting finished at 10:45am.

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Chairman