

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 9 th February 2022
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

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 mainly for noting, albeit comments are clearly welcome.

This report provides updates on the following items:

- Government Actuary Department (GAD) Section 13 Report on 2019 LGPS Valuations (1.05)
- The Business Plan 2021/22 – all projects are currently complete or on track
- Risk register - there have been no changes to the current risks.
- 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

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2021/22. Key task F4 is complete and tasks F1 to F3 are mainly currently on target with further information is as follows:</p> <ul style="list-style-type: none">• F1 (Implement Responsible Investment Strategic Priorities) – the six areas highlighted in the business plan are all progressing. In particular:<ul style="list-style-type: none">○ WPP has submitted its application for the new Stewardship Code and is awaiting feedback. This will be an integral part of the Fund’s submission.○ The WPP RI group continues to work with individual Fund Consultants, Hymans and Russell Investments to progress the inclusion of a Sustainable Active Equity Sub Fund for WPP○ Further investments are being identified and appraised in relation to local/impact opportunities. (see 1.08)○ In relation to reporting against TCFD, the consultation that was due has been further delayed and the expected guidelines for LGPS will unlikely be in place for 1st April 2022 as originally anticipated.• F2 (Climate Change) – Net Zero target and interim targets were approved at the November 2021 Committee. The Fund is continuing to work with its Consultants to implement the Roadmap.<ul style="list-style-type: none">○ F3 – Ongoing Asset Pooling Implementation and Transition – see separate Asset Pooling and WPP Annual Updates. The key point to note is that the tender process for the appointment of Private Market allocators is ongoing as explained further in the Asset Pooling and WPP Annual Updates.
1.02	<p>As expected F1, F2 and F3 continue into 2022/23 and will be included in the new business plan which will be brought to March Committee for approval.</p>
1.03	<p>Current Development and News</p> <p><i>Productive Capital/ Impact Investing in the LGPS</i></p> <p>The recent Scheme Advisory Board (SAB) Responsible Investment Advisory Group met on 5th January and a discussion was held around how the LGPS are currently approaching Impact and Local investments. The Department for Levelling Up, Housing & Communities (DLUHC) will issue their Levelling Up White Paper in the coming weeks which will provide more details on the expectations in pension scheme investments in these areas. It has been suggested that as many Funds have already been investing locally that the LGPS should be prepared to share examples of</p>

	what they are already doing. Work is ongoing with Funds and the Local Government Association (LGA) to progress this further.
1.04	The Fund has been asked by Foresight Group, the manager for the Regional Funds Clwyd are invested in, to participate in a panel discussion covering Local Investing at the PLSA Annual Conference in June 2022.
1.05	<p><i>Clwyd Pension Fund exposure to industrial livestock companies</i></p> <p>There has been a report recently by NGOs Feedback and World Animal Protection which detailed that the UK's local authority pension funds hold £238million of investments in international industrial livestock companies and argued that this investment is contributing to global climate change, deforestation, and biodiversity loss. As a result, councils are being called on to divest this money as "Industrial livestock corporations are simply not compatible with a climate-safe future and like fossil fuels, have no place in the pension portfolio of a climate-conscious local authority."</p>
1.06	<p>Clwyd Pension Fund has been highlighted in the report as an example because it states that £10.3million (0.57%) of the council's pension pot is invested in industrial livestock. This figure was estimated from holdings provided for a Freedom of Information Request in March 2021 for fossil fuel exposure and estimations were made which distorted those figures at the time. The report showed the top 15 industrial meat and dairy companies with the largest investments from UK local authority pension funds.</p> <p>The Fund has contacted both Russell Investments and BlackRock who manage the listed equity portfolios and was provided with the following information as at November 2021:</p> <ul style="list-style-type: none"> • BlackRock ACS World ESG Fund held 2 securities representing 0.36% of the index, so approximately £490k of the £136.1m invested. • Russell Investments had exposure to 4 securities across the Global and Emerging Market Equity Funds totalling £2.9m of the £360.7m invested. <p>Therefore, based on that information, this only equates to 0.67% of the total equity portfolio and 0.14% of the total Fund.</p>
1.07	As Members are aware, the Fund is now in discussions with WPP to provide a Sustainable Equity sub-fund which will assist the Fund with its net zero target ambition. Allocations to any companies which contribute to greenhouse gas emissions in any sectors will be part of engagement discussions to manage emissions down effectively in line with any agreed net zero trajectory.
1.08	<p><i>GAD Section 13 Report on 2019 LGPS Valuations</i></p> <p>On 16th December 2021, the DLUHC published the GAD report on the 2019 LGPS valuations for England and Wales as required under Section 13 of the Public Service Pension Schemes Act 2013. The report was</p>

	<p>expected to be published in the summer but was delayed pending discussions between various stakeholders and ministerial time constraints. This is the second formal Section 13 report, with Section 13 applied for the first time to the LGPS valuations as at 31 March 2016.</p>
1.09	<p>The remit of the Section 13 valuation is to test the premise of achieving solvency and long term cost efficiency to ensure that appropriate funding plans are put in place for all LGPS Funds in England and Wales. Section 13 requires the GAD to report on whether the following aims are achieved:</p> <ul style="list-style-type: none"> • Compliance • Consistency • Solvency • Long term cost efficiency <p>In the main it was confirmed that all the key objectives for the LGPS were met but noted some suggestion for further improvement. The report also notes a number of key areas for consideration for the 2022 valuations e.g. consideration of climate change.</p>
1.10	<p>The KPIs for the Clwyd Pension Fund are attached as appendix 2 along with explanatory notes relating to each measure applied by the GAD in their assessment. The Fund's 2019 actuarial valuation funding strategy was given a clean bill of health and was rated "green" for all of the KPIs. A summary of the outcomes from the report are also attached as appendix 3.</p> <p>The Clwyd Pension Fund has a funding level of 103% on the SAB's standardised basis for comparing all Funds. This compares to a funding level of 91% on the Fund's local funding basis at 31st March 2019.</p>
1.11	<p>Policy and Strategy Implementation and Monitoring</p> <p>The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 4.</p> <p>The Advisory Panel also receive reports from the following Clwyd Pension Fund officer/adviser working groups:</p> <ul style="list-style-type: none"> • Tactical Asset Allocation Group (TAAG) • Cash and Risk Management Group (CRMG) • Private Equity and Real Assets Group (PERAG) <p>Any decisions arising from these meetings which have been agreed using delegated responsibilities are detailed in Appendix 4.</p>
1.12	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 4 updates the Committee on the areas of delegation used since the last meeting. To summarise:</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).
- Commitments to Private Market Investments in line with the strategy and recommendations agreed with Mercer, the Fund Consultant, more details are provided in 1.14.

Asset Class	Fund	Commitment
Private Equity	Cap Vest Fund V	€17m (£15m)
	Oakley Capital Fund V	€16m (£14m)
	Astorg Fund VIII	€17m (£15m)
	Permira Fund VIII	€17m (£15m)
Impact	Circularity European Growth Fund II	€12m (£10m)
	Generation IM Sustainable Solutions Fund IV	\$14m (£10m)
Infrastructure	Brookfield Global Transition Fund	\$14m (£10m)
	Infravia Fund V	€10m (£9m)
	Capital Dynamics Clean Energy SMA	£50m

1.13 **Private Market Allocations**

As reported to previous Committees, due to the WPP currently running a tender for 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.

1.14

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. As can be seen from the table above, the Fund and Mercer have been busy making new allocations. A brief summary of the investments is shown below. All are highly rated managers by Mercer including ESG credentials.

CapVest Fund V

A private equity manager raising €2.95bn, focussed on a mid-market buyout strategy in Europe and targeting investments in consumer staples, healthcare and essential services.

Oakley Capital Fund V

A private equity manager raising €2.5bn, focussed on a mid-market buyout strategy in Europe and targeting complex deals in consumer technology and education.

Astorg Fund VIII

A private equity manager raising €6.5bn, focussed on an upper mid-market buyout strategy in Europe and targeting deals in industrials, healthcare, technology and business services.

Permira Fund VIII

A private equity manager raising €15bn, focussed on a large controlled buyout strategy in Europe, North America and Asia, targeting deals in consumer, healthcare, services and technology sectors.

Circularity European Growth Fund II

An impact manager in the private equity space raising €150m, focussed on investing in growth stage circular economy companies in Europe.

Generation IM Sustainable Solutions Fund IV

An impact manager in the private equity space raising \$1.25bn, focussed on investing globally in growth investments with both environmental and social impact.

Brookfield Global Transition Fund

An infrastructure manager raising \$7.5bn targeting Paris Climate Agreement aligned impact investments in OECD nations (Organisation for Economic Co-operation and Development) across three main pillars; business transformation, clean energy and sustainable technology.

Infravia European Fund V

An infrastructure manager raising €3.bn which will focus on mid-market, core-plus / value added opportunities in the European market.

Capital Dynamics Clean Energy Separate Managed Account (SMA)

Capital Dynamics is a manager with a relationship with the Clwyd Pension Fund spanning decades across many Private Market mandates. This mandate will focus on direct clean energy projects in Wales. More details are provided in agenda item 9.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

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

4.00	RISK MANAGEMENT
4.01	Appendix 5 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	<p>There have been no additional risks added to the register since the last Committee and all of the risks have remained the same as reported to the December 2021 Committee. Of these, most remain on target and the remainder are one step away from the target impact or likelihood, which is mainly due to the uncertainty around markets.</p> <p>The risk which is furthest from target is risk four, which is that the value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. The target for this risk is longer term and now that the Interim Funding review has been completed, this and other risks will be reassessed.</p> <p>The most significant risk (but still just one step away from target) is risk nine which is that the Fund's long-term Investment Strategy fails to deliver on its ambition or objectives as a responsible investor, due to either responsible investment not being properly considered or WPP does not provide the Fund with the tools to enable implementation of its RI policies. Whilst the Fund is addressing this in a number of ways, due to the magnitude of the risk, it is still not appropriate to consider this on target.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – 2021/22 Business plan update Appendix 2 – GAD Section 13 Report, Clwyd Pension Fund KPI's Appendix 3 – GAD Section 13 Report, Summary of Outcomes Appendix 4 – Delegated Responsibilities Appendix 5 – Risk dashboard and register – Investments and Funding</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None.</p> <p>Contact Officer: Debbie Fielder, Deputy Head, Clwyd Pension Fund Telephone: 01352 702259 E-mail: Debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	(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

- (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.
- (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
- (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.
- (e) **AP – Advisory Panel** – 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) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **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.
- (l) **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.

(m) **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.

(n) **Department for Levelling Up, Housing & Communities (DLUHC)** – supports communities across the UK to thrive, making them great places to live and work.

A full glossary of Investments terms can be accessed via the following link.

<https://www.schroders.com/en/uk/adviser/tools/glossary/>