CLWYD PENSION FUND COMMITTEE
28 NOVEMBER 2019

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council held at Delyn Committee Room, County Hall, Mold CH7 6NA on Thursday, 28th November, 2019

PRESENT: Councillor Aaron Shotton (Chairman)
Councillors: Haydn Bateman, Ralph Small, Adele Davies-Cooke and Kevin Hughes

CO-OPTED MEMBERS: Mr Steve Hibbert (Scheme Member Representative)

ALSO PRESENT (AS OBSERVERS): Mr Mark Owen (PFB Employer Representative), Mr Phil Pumford (PFB Scheme Member Representative), Elaine Williams (PFB Scheme Member Representative)

APOLOGIES: Councillor Huw Llewellyn Jones, Councillor Nigel Williams, Councillor Andrew Rutherford

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive) - left after item 87, Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Adviser – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – Mercer), Paul Middleman (Fund Actuary – Mercer).

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

Guest speakers presenting comprising: Sasha Mandich (Russell Investments) and Eamonn Gough (Link Fund Solutions).

The Chairman welcomed the delegates from Link Fund Solutions and Russell Investments, Sasha Mandich and Eamonn Gough, as well as Elaine Williams the new Pension Board member.

The Chairman also highlighted that he would take the agenda items in a different order due to the meeting likely to become inquorate due to members leaving early. As a result, items 9 and 11 were taken immediately after item 5.

84. DECLARATIONS OF INTEREST (including conflicts of interest)

Mrs McWilliam declared an interest in the procurement plans. Mr Buckland, Mr Harkin and Mr Campbell also declared an interest in the same item. It was confirmed that all four would need to leave if any discussions were had in respect of his topic.

There were no other declarations of interest.

85. MINUTES

The minutes of the meeting of the Committee held on 4 September 2019 were submitted.

Mr Hibbert thanked the Chairman for raising the matter of Scheme member representative on the WPP JGC and noted it was due to be considered again in January 2020. The Chairman said he would raise it again at the next JGC meeting.

RESOLVED:

The minutes of 4 September 2019 were received, approved and signed by the Chairman.

86. MINUTES

The minutes of the meeting of the Committee held on 7 October 2019 were submitted.

RESOLVED:

The minutes of 7 October 2019 were received, approved and signed by the Chairman.

87. REVIEW OF INVESTMENT STRATEGY AND RESPONSIBLE INVESTMENT POLICY

Mr Latham expressed the importance of Strategic Asset Allocation as the results of the next Actuarial Valuation will be affected by the decisions that are made today. Fortunately, the Fund is starting with a well-diversified strategy therefore the amendments are more of a minor procedure than major surgery. He outlined that the Committee were being asked to agree the proposed changes to the strategy at this meeting and then the Investment Strategy Statement would be brought for approval at the February Committee.

Mr Harkin presented the proposed revisions to the Strategic Asset Allocation expressing the following key points:

- The Fund are better funded today however; the Fund are still in deficit therefore we need to invest to achieve the required level of return.
- The integrated approach means getting the right balance of Investments, Funding and Covenant. The Fund are ahead of other funds as the Flightpath strategy is already in place, whereas other funds are just beginning to think about risk management.
- The key is to focus on a longer term returns, by setting an asset allocation based on Mercer's 10-year market forecasts.
- Private markets have been very successful for the Fund; the challenge is to ensure that we can continue with what we have.

- Expected returns are generated through statistical analysis by Mercer. Mercer will have forecasts which may not always play out but its ensuring that the asset allocation is effective.

Mr Harkin explained that the current investment strategy set in 2016 was expected to deliver 6.1% p.a. based on market forecasts at that time. However, based on 2019 market views the expected return would reduce to 5.4% p.a. The message is to expect a lower return going forward. Therefore, it will be necessary to ensure that the asset allocation is capable of achieving a return in excess of the Actuary's discount rate i.e. CPI plus 3.2% which has been proposed. Mr Harkin expressed that the current climate in relation to investments is very uncertain so it is important to focus on the long term path, but this will be more difficult going forward.

Mr Harkin explained that the key proposals were shown in the covering report and the presentation but also briefly summarised them as:

1. Invest more in emerging markets.
2. Disinvest completely from Diversified Growth Funds.
3. Restructure the Hedge Fund mandate.
4. Re-categorise Private Markets, and;
5. Create Local/Impact investments portfolio.
6. Review Cash and Risk Management Framework (CRMF).

Councillor Bateman asked what Impact Investments are. Mr Buckland said that these investments look to make a positive contribution to society in addition to meeting investment risk/return requirements. Responsible investment is about ensuring long term sustainability, however, Impact Investments are the next stage, where the focus is to make a positive impact and generate returns for the Fund.

Mr Hibbert queried how the Fund are going to record and report the impact. Mr Buckland said that they are currently considering how best to do that, and it will be articulated within the Responsible Investment Policy, after further discussion with officers.

The Chairman asked what existing investments will move to this new portfolio. Mr Buckland said that there are a range of things to consider, with 17 goals in this area. There are a number of existing investments that could move into the new portfolio and, although this was yet to be agreed with officers, it was likely that around half of the 4% target allocation might be achieved through existing investments.

Mr Everett stated that at a recent meeting he attended, it was raised that there are a significant number of investment opportunities in renewable energy. Mr Everett said that some of these could be appropriate opportunities for the Fund and he asked how to ensure that these opportunities are considered by the Fund going forward. It was agreed that Mr Harkin and Mr Everett will have a formal discussion on this aspect as part of the Pension Fund Advisory Panel meetings and the outcome will be reported back to Committee as necessary.

Mr Buckland highlighted that on slide 21 of the presentation, the expected return for the Fund on the new proposed strategy is 5.6% p.a. which is an increase of 0.2% based on the current 2016 strategy.

Mr Campbell clarified that when assessing the risk of an investment strategy it is important to measure this in a consistent way, and Mercer used a VaR approach. VaR stands for Value at Risk and represents the risk of loss for investments. It estimates how much a set of investments might lose with a given probability, in a given timeframe. The higher the VaR, the higher the risk. Mr Campbell highlighted the need for the Fund to take this risk in order to earn an adequate level of return above the discount rate, which is CPI plus 2.25% for future service accrual at the 2019 valuation.

Mr Campbell explained that slide 25 reflected the key risks faced by the Fund within the Asset Allocation. The risks faced by the Fund are driven in the main, by inflation along with interest rates to the extent a more certain real return can be achieved. Equity risk is also another significant risk. He explained that the grey bars on the chart illustrate a reduction in risk, and the black bars demonstrate the total risk. There is an increase in risk of £7m and the chart on the right shows what is driving that. Mercer confirmed that they are comfortable with this and accepted that taking risk that was expected to be rewarded was appropriate.

Councillor Bateman said in his view that the risk in respect of longer term interest rates and inflation can only go up. He asked what the interest rate is currently. Mr Campbell agreed with Councillor Bateman i.e. that there is a risk, and confirmed that on a 10-year gilt yield the interest rate is less than 1%. Mr Campbell emphasised how difficult interest rates are to predict, which is why the Fund has the risk management framework in place which aims to manage a lot of this risk.

Mr Harkin confirmed that Mercer had built in headroom for the risk that things don't go as planned and similarly this was done when setting the 2016 Strategic Asset Allocation.

Mr Campbell explained that slide 29 illustrated the proposed disinvestment of Diversified Growth Funds. The disinvestment isn't solely due to the poor performance of this class, but because Mercer believe that the Fund is able to hold a diversified portfolio without DGF and through the Best Ideas portfolio for tactical investing which actually performed better.

Mr Hibbert asked around the proposed transition to the new strategy, and expressed concerns over time involved and the costs of implementation. Mr Harkin agreed that it is critical to avoid a lag, therefore Mercer will implement the allocation as quickly as possible.

Mr Harkin continued to discuss the proposed restructure of the Hedge Fund portfolio. He commented that it was proposed that it would now consist solely of Man Group Solutions products who have a lot of market leading products. Mr Harkin confirmed that the proposal is to restructure the existing portfolio so that the Fund would make significant fee savings, including the netting of performance fees. If the new portfolio performs at an overall level, the Fund will pay a performance fee; but if it doesn't, they won't.

Mr Hibbert questioned whether the fees will be higher if the Fund performance is higher. Mr Harkin stated the two things that the Fund will pay for; a fee to Man Group to manage the assets and a fee to cover the Hedge Fund mandate. Until the Fund get the minimum return level required, the Fund won't pay a performance fee. This is called performance fee netting and is a very significant fee saving compared to the current position where managers are still paid even if performance targets aren't met.

Mrs McWilliam asked in respect of the new structure whether Mercer are expecting a change in return. She said that the fee saving is great if the return is going to be similar or greater. Mr Harkin confirmed that the new structure was designed to achieve higher expected returns as well as saving fees.

Mr Buckland continued through the presentation and highlighted the four key approaches to responsible investing; integration, stewardship, investment and screening. He commented on the work that the Fund has already done in this key area, including being Tier One Signatory to the FRS UK Stewardship Code, whereas not many LGPS Funds have achieved this.

He continued to talk through the process that the Fund had been through during the year to reach the proposed policy which was contained as an Appendix to the Committee report.

Mr Hibbert proposed that throughout the policy, and specifically on page 33 and 34, whether the phrase 'long-term financial risk' could be changed to 'financial risks' as he argued that there are short term risks also. This change was agreed and the policy will be amended to reflect this.

The presentation concluded by looking at the potential for fee savings within the proposed Strategy and where these fee savings were generated. Finally, the implementation timeline illustrated how the Fund would be looking to transition to the new Strategy and whether it will be implemented through the WPP. Hedge Funds and CRMF will not be implemented through the WPP at the current time.

The Committee were comfortable with the proposed Strategic Asset Allocation and the Responsible Investment Policy.

<u>RESOLVED</u>:

(a) The Committee agreed the proposed Strategic Asset Allocation (as shown in paragraph 3.02) of the Fund as a basis for consultation with the Fund's Employers; and

(b) The Committee considered and agreed the Responsible Investment Policy as the basis for consultation with the Fund's Employers.

88. POOLING INVESTMENTS IN WALES

Mr Latham stated that the current oversight adviser is Hymans Robertson who were appointed for the initial establishment and transitional period. However, the Pool will be appointing an adviser for on-going monitoring and further development of the WPP. The results of the procurement is to be agreed at the next JGC meeting on 9th December 2019. It was also mentioned that both Mr Latham and Mrs Fielder can't attend the next JGC meeting due to the timing of the meeting.

Mr Gough gave a brief overview of his role which is the relationship manager at Link Fund Solutions and is responsible for the safety and oversight of the Fund. Mr Gough expressed the following key points regarding the WPP:

- Tranche 1 Funds involves two equity funds which started at the end of 2017.
- The FCA approved the Funds in July 2018.
- The first WPP manager day was in September 2018.
- The first launch of the Fund occurred in January 2019.
- BlackRock were appointed to transition the fixed income funds.
- Karl Midl has worked for Link Fund Solutions for over 20 years and was appointed mid 2019 as Managing Director for Link Fund Solutions.
- The global growth equity fund is more familiar to the WPP and has 3 underlying managers (2 of these where existing managers).
- The global opportunity equity fund is Russell Investments Best Ideas Fund with 7 underlying managers.

Mr Hibbert asked whether the WPP has agreed to share costs and how they are shared. Mr Gough said that from a transition stand point approach, each authority will be responsible for reshaping their portfolio. Therefore, the cost is proportionate to the size of each Fund. Mrs Fielder said that she has details of all of these costs and can identify the total transition cost. She mentioned that the only cost that is split equally across the eight Funds is the governance cost.

Mr Mandich re-stated the three objectives of pooling which the WPP was implementing:

1. To create scale.
2. To enable co-investments.
3. To put in place a better governance structure.

He emphasised that the Fund are a smaller fund in a bigger pool but in the long run this has helped the Fund save money, by getting a lower cost through a bigger scale.

The performance review on slide 8 of their presentation shown that the excess net return to date is 0.92%, which represents from mid-February 2019 to the end of October, is an excellent start.

Mr Gough confirmed that Tranche 1 and 2 have been completed. Tranche 3 is a fixed income fund with Hymans Robertson appointed as the transition advisor and they are looking to launch this in January 2020.

On slide 16, Mr Mandich raised that that they are hiring 5 to 6 managers for the Emerging Market Sub-Fund to achieve a smooth pattern of returns.

Mrs McWilliam asked Mr Gough to explain the risks of the recent event involving Woodford Investment Management to the Committee. Mr Gough commented that there are limitations to what he can say but this is still ongoing. Neil Woodford is an investment manager who is involved with a number of Funds, one being an equity fund which was frozen and is now being wound down by Link Fund Solutions. There is lots of media attention on this, but the impact on the WPP and therefore the Fund is that Karl Midl who was recently appointed may not be as available as he used to be. Mrs McWilliam suggested that the Officer Working Group probe into this matter.

RESOLVED:

(a) The Committee noted the report;

(b) The Committee received a presentation from the WPP Operator; and

(c) The Committee discussed and agreed any comments or questions for WPP.

89. 2019 ACTUARIAL VALUATION

Mr Middleman gave a brief update on the 2019 Actuarial Valuation. He stated that everything has been going well so far and that Mercer are in the process of agreeing final contributions with employers. The Funding Strategy Statement (FSS) consultation feedback period finished on 15 November, therefore feedback from employers is being collated and will be brought back to the February Committee for final sign off of the FSS.

A key discussion point has been the allowance for the McCloud judgment. The latest update on the McCloud judgment is that any remedy will not be known until April 2021 at the earliest. Mr Middleman suspected it will be later but that it will be in time for the next actuarial valuation in 2022.

A key aspect however is the administration work needed to implement the changes which is expected to be significant. He strongly recommended that Funds discuss with employers and request member data for members who are affected by the McCloud judgment. The administration team will need to put this on the agenda now to give sufficient lead in time. Mrs Williams noted it was already high on the agenda for the team.

RESOLVED:

The Committee noted this report on the outcomes and the progress being made with the actuarial valuation project.

90. **2019 AVC REVIEW UPDATE**

Mr Buckland gave a brief summary of events regarding the 2019 AVC Review. Currently there are 600 Fund members who have AVC's with Prudential and 6 Fund members with AVC's with Equitable Life. As reported at the last meeting the Equitable Life funds will be transferred to Utmost life. The next step for the Equitable Life investments is the court hearing which started last week, where formal approval will be sought to implement the changes. Assuming approval is received, this will be effective from 1 January 2020. There is a series of communications that will be sent to members informing them of the changes.

RESOLVED:

The Committee noted the contents of this report and the accompanying appendix.

91. **GOVERNANCE UPDATE (Taken after item 87)**

On this item of the agenda, Mr Latham emphasised the SAB Good Governance phase 2 report which was published on 15 November and is attached in Appendix 4.

He then went on to explain that the CMA requirements on paragraph 1.06 relate to the investment strategy and the risk management framework. Two sets of objectives are required and it is recommended that this will be delegated to Mr Latham and Mrs Fielder to determine these objectives.

On paragraph 1.09, Mr Latham confirmed that the Pensions Regulator's annual survey has been sent.

Mr Hibbert referred to the LGPS SAB meeting note from 6 November 2019 and asked whether the letter had been received by WPP regarding Funds in a pool who do not have a Scheme Member Representative. Mr Latham and Mrs Fielder did not know if it had been received but will confirm and get back to Mr Hibbert.

Mr Latham highlighted the training policy updated and particularly the LGA meeting in January 2020 and the LGC meeting in March 2020 which Committee and Board members could attend.

He noted the breaches, and that the general trend of breaches reflects that this number is coming downwards which is a pleasing direction for the Fund.

RESOLVED:

(a) The Committee considered the update and provided comments, particularly noting the SAB Good Governance phase two recommendations (paragraph 1.08). The Committee are also reminded to confirm whether they will be attending two future conferences as outlined in paragraph 1.12;

(b) The Committee approved the use of urgency delegations to carry out the appointment of the Investment Consultant and the Independent Adviser during March 2020 as outlined in paragraph 1.01; and

(c) The Committee approved that the setting of objectives for CMA purposes is delegated to the Head of Clwyd Pension Fund and the Deputy Head of Clwyd Pension Fund in accordance with the updated schedule of delegations (as described in paragraph 1.06).

92. LGPS CURRENT ISSUES

The report was noted and no further questions were asked.

RESOLVED:

The Committee noted this report and made themselves aware of the various current issues affecting the LGPS and the Fund.

93. ADMINISTRATION AND COMMUNICATIONS UPDATE (Taken after item 91)

Mrs Williams gave a brief update on the administration and communication related items from the latest quarter. The recommendations focus on the 2019/20 Business Plan. Mrs Williams mentioned that timescales may slip on the implementation of the survivor benefit changes because the administration team need to go back all members in the Fund to determine if members had any relationship and therefore any surviving benefits in the Fund.

The GMP reconciliation exercise was outsourced to Equiniti and is now entering its final stage. The exercise involved confirming that HMRC GMP records match the Fund's. There have been challenges faced in this exercise and this will include the need to repay underpayments and consider reclaiming overpayments for some pensioners and dependant members, as well as then increasing or reducing pensions going forward. Due to the tight timescales, the Committee were being asked to allow these decisions to be made using the urgency delegations, and then an update would be brought to the February Committee meeting.

Mr Hibbert queried the plan on reclaiming any overpayments the Fund had made to pensioners as a result of an incorrect GMP. Mrs McWilliam suggested that it is highly likely that the decisions will be that the Fund will not seek to reclaim for any overpayments. This approach has been recommended by the LGA following a suggestion from Government. It was also confirmed that the DWP would not be refunding any overpayments due to incorrect data.

Mrs Williams said the Fund are hoping to implement everything by the February Committee so that the Fund does not go through another pension increase period i.e. April 2020.

On page 170, Councillor Bateman asked how the recruitment process was progressing. Mrs Williams said that there was a number of internal interviews and two candidates were successful. Both had strong interviews therefore, the position will be shared between both candidates. One has a post in the retirement team working part-time, and one will work in the aggregation team part-time. The succession planning that the Fund has requires more lead roles, so Mrs Williams believed that this will work extremely well.

Mrs Williams also added cybercrime as a new risk, the Fund will be requesting more information from Flintshire on this.

RESOLVED:

(a) The Committee considered the update and provide any comments;

(b) The Committee noted the requirement to potentially extend the timescales in relation to the survivor benefits implementation (A6) as outlined in paragraph 1.01; and

(c) That the Committee approved the use of the urgency delegation procedure to take forward items A3 (Under/overpayment Policy) and A8 (GMP reconciliation).

94. INVESTMENT AND FUNDING UPDATE

The report was noted and no further questions were asked. Mrs Fielder raised from a Fund perspective that the New Cost Transparency Templates were not as transparent as the ones that the Fund produced. To raise awareness, Mrs Fielder is in contact with both the PLSA and the LGA as she believed that there may be an issue with the templates.

RESOLVED:

The Committee considered and noted this report for delegated responsibilities.

95. ECONOMIC UPDATE, INVESTMENT STRATEGY AND MANAGER SUMMARY

The report was noted and no further questions were asked.

RESOLVED:

(a) The Committee noted the Market and Economic update for the quarter ended 30 September 2019, which effectively sets the scene for the Investment Strategy and Manager Performance summary; and

(b) The Committee noted the Investment Strategy and Manager Performance summary for the quarter ended 30 September 2019.

96. FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK UPDATE

The report was noted and no further questions were asked.

RESOLVED:

(a) The updated funding position (currently on assumptions consistent with the 2016 valuation) and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework was noted;

(b) The impact of the equity protection strategy was noted; and

(c) The Committee noted that any currency risk associated with the market value of the synthetic equity portfolio with the Flightpath strategy is hedged, and a further hedge has been placed on the Fund's developed market physical equity holding.

The Chairman thanked everyone for their attendance and updates at the Committee meeting. The next formal Committee meeting is on 11th February.

The meeting commenced at 9.30 am and finished at 1.00 pm.

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Chairman