

CLWYD PENSION FUND COMMITTEE

25 November 2020

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 25 November 2020.

PRESENT: Councillor Ted Palmer (Chairman)

Councillors: Ralph Small, Billy Mullin, Haydn Bateman

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

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

APOLOGIES: Councillor Andy Rutherford (Other Scheme Employer Representative), Councillors Julian Thompson-Hill, Nigel Williams and Tim Roberts.

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Head of Clwyd Pension Fund), 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), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee).

Guest speakers presenting for items 4 and 5 comprising: Hill Gaston (Mercer), Gerard Fitzpatrick (Russell Investments), Sasha Mandich (Russell Investments), Aidan Quinn (Consultant – Russell Investments) and Eamonn Gough (Link Fund Solutions).

117. **DECLARATIONS OF INTEREST (including conflicts of interest)**

There were no declarations of interest.

118. **MINUTES 7 OCTOBER 2020**

The minutes of the meeting of the Committee held on 7 October 2020 were agreed.

RESOLVED:

The minutes of 7 October 2020 were received, approved and signed by the Chairman.

120. **RESPONSIBLE INVESTING AND CLIMATE RISK**

Mr Buckland introduced the session by reminding the Committee that when the revised investment strategy was agreed by the Committee in February 2020, a new formulated Responsible Investment (RI) policy was also agreed. He added that the RI Policy contained a number of key areas of focus and included a

statement on Climate Change. The Fund recognises the importance of addressing the financial risks associated with Climate Change through its investment strategy, and recognises it as a financial risk.

The RI Policy also recognised the multitude of potential areas on which to focus, and therefore agreed 5 strategic priorities for the next 3 years (2020-2023). One of these priorities was to evaluate and manage carbon exposure. Mr Buckland finished by commenting that the session today would look at the results of the carbon foot printing exercise that Mercer had undertaken on the Fund's equity assets. Prior to presenting the results Mr Gaston would start with an educational session, designed to aid the Committee's understanding of the results.

Mr Gaston from Mercer presented a detailed training session to help the understanding of the Committee members regarding carbon foot printing. He considered the issue of Climate Change, and global warming and noted that at present the world is on track for circa + 3°C of warming before the end of the century, and so he concluded that there needs to be more work done globally to meet the ambition of the Paris Agreement. He continued to consider the practicalities of measuring a carbon footprint, and looked at the metrics on which to focus, and addressed the issue of Scope 1, 2 and 3 emissions and how these are assessed.

Mr Gaston then moved on to consider the results of the analysis for the Clwyd Pension Fund. To start he addressed the issue of coverage across the asset classes, and noted that at the moment the analysis was limited to public equity investments, with some information available for fixed income and property investments.

To put this into context Mr Buckland reminded the Committee of the current investment strategy and noted that for the carbon footprint analysis Mercer had covered listed equity (10% Global equity, 10% Emerging Markets equity) and most of the TAA/Best Ideas portfolio. Given that the Fund is diversified and has exposure to private markets, Mr Buckland emphasised the difficulty of analysing carbon foot printing in respect of this. Mr Gaston moved on to note that when the carbon footprint was analysed at 31 March 2020 18.6% of the Fund was able to be assessed, and at 30 September 2020, due to changes in asset mix, the proportion analysed had increased to 26.5% of the Fund.

Mr Gaston focussed on the findings on the executive summary. He mentioned that the listed equity portfolio is marginally more carbon efficient than the MSCI ACWI global benchmark. There was also a reduction in carbon intensity of c9% which was partly driven by the reduction in carbon intensity in the assets now held with WPP and the transfer of passive equities with BlackRock to their ESG Equity Fund.

Mr Hibbert asked whether the carbon footprints shown in the presentation are the fund manager's own analysis, or whether Mercer had separately analysed these. Mr Gaston confirmed that Mercer had undertaken the analysis based on the fund managers stock holdings, and an MSCI tool. This ensures that a consistent and independent assessment is used across all portfolio when comparing them.

Mr Gaston noted the following further key points:

- The analysis split the overall fund between the listed equity managers, and the holdings within the TAA/Best Ideas portfolio.
- Overall, the listed equity funds in the portfolio are all more efficient than the benchmark at 30 September 2020.
- The WPP Russell Global Opportunities fund had seen its footprint improve significantly between 31 March 2020 and 30 September 2020.
- The BlackRock ESG tracker fund had a footprint equivalent to around 60% of the benchmark index. This was in line with expectations for the Fund.
- Within the Best Ideas portfolio there were two holdings in particular dominating the results; the LGIM Infrastructure equity fund, and the Investec Global Natural Resources fund had a significantly high carbon footprint.

It was noted that this footprint was likely to change due to a number of factors in the coming months, in particular the transfer of emerging market assets to WPP Russell.

Mr Buckland noted that the recommendations from Mercer within the presentation were being worked through with officers and will be developed into strategic objectives for agreement by the Committee at a later date.

Mr Gaston covered these “recommendations” and highlighted that the fourth recommendation is the most ambitious one where the Fund would need to consider whether they wish to adopt a strategic net zero objective.

Mr Latham recommended a very clear work programme be developed. Mr Harkin and Mr Buckland agreed that this was appropriate and would be discussed with officers before being brought back to Committee for consideration.

Mr Latham confirmed the recommendation was just that the Committee note and discuss any comments they have on the agenda item.

There was discussion about whether there was a potential clash between the Committee considering the fiduciary duty to maximise returns, and the desire to ensure that the portfolio was invested sustainably. Mr Everett highlighted the need to ensure the Committee can continue to oversee this to be confident the fiduciary requirement is continuing to be met. Mr Gaston agreed, and also highlighted that climate change was a systemic risk which by not taking action would impact all companies and sectors in asset allocation thereby affecting the ability to maximise returns.

The recommendations were agreed in principle subject to the officers coming back to the Committee at a future meeting with a clear work plan and recommended objectives.

RESOLVED:

- (a) The Committee noted and commented on the Carbon foot printing presentation.

121. ASSET POOLING AND WPP ANNUAL UPDATES

Mr Gough, from Link Fund Solutions introduced himself to the Committee. He started the presentation by making a number of comments:

- Despite delays and complexities, Link Fund Solutions had launched 5 fixed income sub-funds in 2020.
- The status of the Emerging Markets sub fund launch was on hold due to the requirements to be included in the prospectus, linked to the proposed decarbonisation approach. Link Fund Solutions had aimed for a launch in Q2 2021 however this may be delayed.

Mr Quinn from Russell introduced himself to the Committee and noted that since the Committee last met there has been no difference in terms of managers in the global opportunities sub-fund.

Mr Quinn made the following key points:

- Despite the market meltdown in Q1 2020, the performance of the global opportunities portfolio was positive in terms of investment returns. He added that since inception, excess returns were positive (c0.5% p.a.) but this is still a relatively short period.
- The chart on slide 8 outlined the difference in growth versus value, with growth outperforming value.

Mr Harkin asked how the portfolio looked going forward following the change in the US administration, given the different policies that would be adopted. Mr Fitzpatrick from Russell introduced himself and responded by noting that it would depend on the final outcome of the US election. In terms of the senate situation, it was currently believed to be more split and that republicans would retain the senate situation with Biden as president. The senate controls tax cuts (which are good for the economy and market), which Trumps administration led, therefore he believed it is likely to stay in place. Overall, a positive result given the uncertainty.

Mr Fitzpatrick focused on the targets for the Multi Asset Credit Funds. Since inception, the performance was positive with an outperformance of 2.8% p.a. vs a 1.1% p.a. target. Events such as the US election and COVID-19 have been good for credit assets as they fed through in credit markets.

He stated that the target return is SONIA + 4% p.a. The assets under management are £636 million as at 31 October 2020 for WPP as a whole. Mr Fitzpatrick outlined from how Russell planned on achieving the performance target.

Mr Fitzpatrick continued to note that credit markets continue to have a role to play as part of a wider asset allocation, given it is a medium expected level of return compared to equities. In terms of tactical management, Russell take a "risk on, risk off" approach.

Mr Mandich spoke about the Global Opportunities Fund in which the Clwyd Fund invested. It has been planned to target a 25% lower carbon footprint than the benchmark in early 2021. This will become possible through EPI

(enhanced portfolio implementation) which has been designed to give the Fund Manager more control.

Mr Mandich then moved onto the topic of Emerging Markets. Mr Mandich noted that the Emerging Markets sub-fund is to be launched in the next 3 to 6 months. The aim of the sub-fund was to deliver stable excess returns whilst generating manager fee savings. On average across the WPP, the authorities pay c0.7% in manager fees, whereas this sub-fund is expected to charge only c0.4% (with an overall saving of more than £1 million). Mr Mandich also added that they will be hiring a China specialist to find opportunities on the Fund's behalf.

Mr Hibbert raised his concerns about whether the Fund will still be investing at a 4 degree increase and only targeting a 25% carbon reduction. Mr Mandich replied that they are working out how to achieve the required improvements in this area.

Presenters from Russell Investments and Link Fund Solutions left the meeting.

Mr Latham commented that previously when considering investments in WPP he had considered whether the proposal would produce better risk adjusted returns for the Clwyd Fund, and whether it would save fees. He felt that for the WPP Emerging Markets sub-fund it was a “win-win” with both considerations being met. He added that the potential for lower carbon emissions was another benefit.

He added that there were still ongoing discussions at WPP regarding having a scheme member representative. However, to move this forward it will require full consensus by all participating administering authorities. Mr Everett thanked the officers for continuing to raise the issue of the scheme member representative. The Committee noted their hopes for consensus to be agreed and agreed that they would also support this being sourced from the Pension Boards as long as it was a scheme member representative.

The Committee agreed the recommendations.

RESOLVED:

- (a) The Committee noted and discussed the presentation from the WPP Operator and Investment Manager.
- (b) The Committee ratified the decision to invest in the Wales Pension Partnership Emerging Market Equity Fund.
- (c) The Committee agreed that the assets should be transitioned and delegate the specific timing to the Clwyd Fund officers on the OWG.
- (d) The Committee noted the WPP Annual Report.

122. FUNDING AND INVESTMENT UPDATES

Mr Harkin gave a brief investment update and noted that the latest valuation of the fund (as at 31 October) was broadly unchanged but slightly lower than the position in September 2020.

Mr Hibbert asked whether the Committee could have more details on the Fund's synthetic equity strategy, collateral waterfall and other elements of the flightpath structure. Mr Harkin and Mr Middleman confirmed that Mercer could provide further information on this at planned training sessions.

Mr Middleman confirmed that in terms of the funding position, the Fund was broadly on track in terms of where the funding position is against the 2019 actuarial valuation. The position trending down slightly from the end of September, but to date the Fund is ahead of schedule based on estimates of where the asset values are. However, there still remains uncertainty in outlook for future investment returns which could affect the Fund's solvency position.

RESOLVED:

- (a) The Committee noted the Market and Economic update for the quarter ended 30 September 2020.
- (b) The Committee noted the Investment Strategy and Manager Performance summary for the quarter ended 30 September 2020.
- (c) The Committee noted the Funding and Risk Management Framework update and the outcomes of the annual health-check review.
- (d) The Committee noted the outcomes from the review of the Fund's AVC provision.

123. **REGULATION CHANGES AFFECTING THE LGPS**

Mr Latham noted that the work surrounding the McCloud remedy was going to plan as the Fund was in the process of gathering data from employers. However, there was a risk with delays to regulations. The consultation on GMP indexation/equalisation was also noted along with the recommendation.

Information was shared from a letter from Welsh Government regarding the 95k cap. The Fund would only be impacted by this regulation if employers within the Fund had members who were leaving and fall under the relevant category.

Mr Everett stated that risks taken are at the risk of the employer, not the Clwyd Pension Fund. Mr Middleman agreed and said that the separate governance and decisions by the Fund and the employer need to be clear on this. Mr Middleman said that this was an extremely complex area and it needed to be discussed with employers to ensure the correct processes are in place.

Mr Everett noted the extremely challenging issue surrounding these changes. Mr Middleman agreed with the complexity and noted that a potential policy on this matter may need to be agreed for the Fund. Mrs McWilliam confirmed that the Fund can use urgency delegations to deal with this situation.

RESOLVED:

- (a) The Committee considered the report.
- (b) The Committee considered and agreed the recommendation for the consultation response in relation to the GMP Indexation Consultation, as outlined in paragraph

1.07, and delegated the completion of the response to the Head of the Clwyd Pension Fund.

124. **GOVERNANCE UPDATE**

Mr Latham thanked the Board for the comments in paragraph 1.02 of this agenda item. He also made the Committee aware of possible induction training sessions to be scheduled in 2021.

RESOLVED:

- (a) The Committee noted the update on governance related matters.
- (b) The Committee noted the feedback in paragraph 1.02 from the Pension Board.

The Chairman thanked everyone for their attendance and updates at the Committee meeting. The next formal Committee meeting is on 10 February 2021. The meeting finished at 12:15pm.

.....
Chairman