

CLWYD PENSION FUND COMMITTEE

31 August 2022

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 31 August 2022.

PRESENT: Councillor Ted Palmer (Chairman)

Councillors: Dave Hughes, Jason Shallcross, Antony Wren, Sam Swash

CO-OPTED MEMBERS: 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. Councillor Gwyneth Ellis (Denbighshire County Council), Councillor Anthony Wedlake (Wrexham County Borough Council), and Sharon Carney (Corporate Manager, People and Organisational Development).

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

Officers/Advisers comprising: Neal Cockerton (Chief Executive), Debbie Fielder (Deputy Head of the Clwyd Fund), Sandy Dickson (Investment Adviser – Mercer), Karen Williams (Pensions Administration Manager), Alison Murray (Aon), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee).

The Chairman welcomed the new members to the Committee including Cllr Swash from Flintshire County Council as this was his first meeting. He also welcomed Cllr Ellis from Denbighshire County Council and Cllr Wedlake from Wrexham County Borough Council who had also been appointed to the Committee but did not attend the meeting.

The Chairman welcomed Mrs Murray back to the Committee as she will present item 13.

12. DECLARATIONS OF INTEREST (including conflicts of interest)

The Chairman confirmed he had family members as members of the Pension Fund and he has applied to become a member of the Fund.

Cllr Swash also confirmed he is a member of the Fund, Hawarden Community Council and University and College Union.

Cllr Shallcross confirmed he is a member of the Fund and Saltney Town Council.

Cllr Wren confirmed he has applied to become a member of the Fund and Connah's Quay Town Council.

Cllr Wren and the Chairman are members of Flintshire County Council's Constitution Committee, which was highlighted during item 6.

There were no other declarations of interest.

13. MINUTES 15 JUNE 2022

Mr Hibbert asked whether his correction note for the previous Committee minutes was accepted. Mrs Fielder and Mrs McWilliam said this was being updated.

The minutes of the meeting of the Committee held on 15 June 2022 were agreed.

RESOLVED:

The minutes of 15 June 2022 were received, approved and will be signed by the Chairman once the updates are made.

14. CLWYD PENSION FUND ANNUAL REPORT 2021/22

Mrs Fielder confirmed that the 2021/22 annual report was due to be published before 1 December 2022 which included the audited accounts. She thanked Mercer for their support in the production of the Annual Report due to the departure of the Fund Accountant in April 2022. Mrs Fielder explained that Mr Ferguson, the Fund's Section 151 Officer had reviewed the accounts and any comments from him had been taken into account. She also confirmed that the Fund complied with the CIPFA guidance produced in 2019 called "Preparing the Annual report" as much as was able.

Mrs Fielder went through the annual reporting highlighting a number of areas including the following key points:

- The Independent Adviser's report and Pension Board report highlighted the approval of the cyber policy, excellent progress on the Fund's responsible investment priorities and targets as well as the continued improvement in administration despite the rise in case numbers.
- The administration report in appendix 4 reflected that, since the pandemic, employees continued to work from home during 2021/22. Productivity remained high and the number of cases completed exceeded 31,000 during the year. The registration for the member self-service increased

from 36.1% to 48.4%. 52 of the 54 employers in the Fund now used iConnect.

- At 31 March 2022, the Fund had maintained a fully funded position as per pages 83 to 86 in the Funding and Flightpath item. As the Fund was in a valuation year, the funding position would be formally reviewed, and the risk management framework would monitor the impact of rising inflation and interest rates which continued after the accounting year end, and these will be considered as part of the assumptions setting.
- The Fund performed well in the year as outlined on pages 85 to 103 as the Fund achieved an investment return for the year of 13.3% against the Fund benchmark of 9.1%. The local authority average for this figure was 8.6%. This placed the Fund second in the universe of peer LGPS Funds.
- Highlights were the best ideas portfolio which achieved 20.3% and the private markets portfolio which returned 26.4% in aggregate, of which private equity returned 36.0% and the local impact portfolio returned 40.3%. In contrast, global and emerging market equities returned 2.3%, which was a reversal of the previous year's return of 42.2% when private markets only managed to return 4.6%.
- The Fund continued to make commitments to private market assets favouring those with a sustainable impact or local remit.
- During the year, more assets were transitioned to the WPP, namely emerging market equities. The 10% strategic allocation was now managed by Russell Investments which brought the Fund's total investments in the WPP to 32%.
- The fund accounts were shown on pages 104 to 139. The main areas to note were that:
 - o Assets which included cash but excluded net assets increased from £2.2 billion to £2.5 billion.
 - o Contributions from employees and employers increased by £3.4 million.
 - o Transfers into the Fund, which were difficult to estimate, increased by £3.5 million.
 - o Income over expenditure, excluding fees and investment income, was £4 million compared to £2 million last year.
 - o The change in the market value of investments comprised of realised profit and loss and also the unrealised gain/loss in the valuation of assets during the year. The increase to the market value of £261 million was lower this year, as sales were £200 million lower than last year.
 - o On pages 115 to 116, management expenses highlighted that administration costs increased by £210k from last year. This was due to IT and staffing costs which had been in the budget for 2021/22. The oversight and governance costs increased by £334k due to increased legal fees relating to new investments in private

markets and the increased support from consultants on private markets.

- Page 146 showed the actual costs versus the budgets, and in total £436k was underspent against a budget of £25.8 million. A more detailed breakdown was reflected in appendix 8.
- Page 143 showed the actual cashflow against the budget and the significant variance which was the distribution income from the private markets which was better than originally anticipated.
- Pages 155 to 162 gave further details on the progression of the WPP to date.
- Section 4 would include the Fund's regulatory documents which had previously been approved by the Committee such as the Funding Strategy Statement, Investment Strategy Statement, Governance Policy and Communication Strategy. These would be included in the final published document. Other best practice Fund documents were also signposted.
- Appendix 2 included the draft response to audit and inquiries letter from Audit Wales for 2021/22 and the changes were highlighted. The Committee members were asked to note the response.

Regarding the economic and market update, Mr Cockerton highlighted his concerns regarding the inflationary pressures which would impact the Fund, noting that this matter was on a later agenda item.

Mr Ferguson thanked Mrs Fielder and the team for the hard work on the accounts. He reviewed the accounts prior to submission and was happy to support them being submitted to Audit Wales. Mr Ferguson confirmed that the Committee would be asked to approve the final audited accounts at the November Committee meeting.

On page 95, Cllr Swash highlighted the reference to the ambitious target for the investments in the Fund to have a net zero carbon emissions by 2045. Cllr Swash knew other Funds had a net zero carbon emissions target date of 2030 so asked for more context on this. Mr Harkin said that it was ambitious in the context of the Fund's current portfolio, balancing risks along the pathway to net zero. He noted that if the Fund were to move their portfolio too quick, this could expose the Fund to significant risks. It was about balancing the trade-off of risks and not putting our fiduciary responsibility to members at risk. Mr Latham added that the Fund planned to undertake an induction session to help the new members understand how the 2045 net zero target date had been set.

RESOLVED:

- (a) The Committee considered the Fund's draft Annual Report for 2021/22 including the draft Statement of Accounts.
- (b) Members noted the Audit Enquiries letter and response.

15. STEWARDSHIP CODE SUBMISSION

Mr Latham introduced this report and highlighted the two recommendations on page 185. The appendix included the draft Stewardship Report which would need to be submitted by the end of October, ahead of the next Committee in November, hence the reason the Committee were being asked to consider it at this meeting and delegate responsibility to make any final changes to the Head of Clwyd Pension Fund. He added the following key points:

- The drafting of the Stewardship Report had been supported by Mercer and contained matters the Fund already does, had done in the past, or planned to do in the future.
- The Fund were part of the WPP which had already successfully submitted a report for the Stewardship Code earlier this year.
- Two thirds of the Fund's assets were held outside the WPP, so Mr Latham believed it was right for the Fund to also become a signatory of the Code.
- After submission, the Financial reporting Council (FRC) would make comments and suggestions for improvements, regardless of whether the submission was successful or not. If it is successful, the Fund would need to demonstrate ongoing development and improvements, as they are required to reapply annually to retain signatory status.
- Mr Latham highlighted that principle 1 included a definition of what stewardship is - "*Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society*".
- Paragraph 1.07 highlighted the four main sections and the 12 underlying principles.
- Paragraph 1.09 to 1.12 highlighted the main areas and how they were addressed through the Fund or the WPP.
- Paragraph 1.13 onwards gave key points to note as part of the submission. Mr Latham believed a particularly strong area of the Funds submission was in relation to the private markets portfolios where the Fund has a sustainable focus.

RESOLVED:

- (a) The Committee considered the contents of the draft submission.
- (b) The Committee delegated responsibility for approving the final submission to the Head of Clwyd Pension Fund.

16. GOVERNANCE UPDATE

Mr Latham highlighted the recommendations and the following key points to the Committee:

- The outcome of the Pension Board effectiveness survey was summarised in appendix 3.
- The recommendations included proposed changes to the Constitution and Pension Board Protocol as outlined in paragraphs 1.04 to 1.09. The key changes proposed moving responsibilities from the previous Chief Executive to the Head of Clwyd Pension Fund. They also added the Corporate Manager for Human Resources and Organisational Development to the Advisory Panel, replacing the Chief Executive. The Monitoring Officer had considered the changes and supported them. The next steps would be consideration by the Council's Constitution and Democratic Services Committee, before going to Flintshire County Council for approval. At this point the Chair and Councillor Wren highlighted that they were members of the Constitution and Democratic Services Committee but Mr Lathan and Mrs McWilliam, the Independent Adviser felt there was no conflict in those roles, and if anything it would be helpful for them to be there.
- An update from the Scheme Advisory Board was in appendix 5.
- As shown in paragraph 1.11, there were new appointments following the many resignations of ministers of the Department for Levelling Up, Housing and Community.
- Paragraph 1.13 had information about a new Supreme Court judgement which would likely impact both the Fund and employers. The LGA and SAB were aware of the issue and Mr Latham said the Fund may be required to make retrospective changes to records including benefit calculations for this. It is hoped that there might be national guidance in due course.
- Future training events were outlined in paragraph 1.14 and Mr Latham asked for the Committee members to contact Mrs Fielder if they wished to attend. The training on the Investment Strategy Review was due to take place on 5th October and he emphasised that this was essential training and important for members to attend.
- A key risk relates to the difficulties with recruitment and retention. This matter was being considered by the Advisory Panel given the impact it is having on the Fund.

Following Mr Hibbert's concerns raised and discussed at the last meeting regarding Michael Lynk's letter on Palestine, Mr Hibbert suggested that the Fund reviewed the 'Social' part of ESG relating to the companies the Fund is invested in. Mr Latham highlighted work was ongoing with the WPP and Robeco on this matter. Mrs Fielder added that the WPP Responsible Investment group meets regularly with Robeco to discuss engagement themes and the stocks and shares that are being voted and engaged on within these areas, and she referred to the appendices in agenda item nine.

RESOLVED:

- (a) The Committee considered and noted the update.
- (b) The Committee considered the proposed changes to the Council's Constitution and Pension Board Protocol, relating to pension fund related responsibilities and recommended the proposed changes for consideration by Constitution and Democratic Services Committee and then approval by the Council.
- (c) The Committee approved the proposed changes to the Delegations of Functions to Officers Schedule.

17. ADMINISTRATION AND COMMUNICATIONS UPDATE

Mrs Williams highlighted this item of the agenda was for note and talked through the following key points.

- The team were busy with business as usual, the McCloud programme, national pension board dashboard preparation and the re-calculation of member benefits as a result of the retrospective 2021/22 pay award.
- The resource issues were outlined in paragraph 2.01 which detailed the number of vacancies the Fund had available and any appointments made. Since the paper was drafted, the Fund had met with HR advisors and were in the process of improving the job advert wording to try to better attract candidates. For example, this included changes to job titles to incorporate the word "administration" so it would be highlighted on more job searches. The adverts were due to go live in the next few weeks.

Cllr Hughes asked whether the Fund had thought about hiring an apprentice. Mrs Williams confirmed that the Fund currently had two apprentices already, so no more were taken on this year as the current focus was on recruiting more experienced team members.

Mrs Williams then presented training slides regarding the national pensions dashboard and highlighted the following:

- The development of the national pensions dashboard applies to all pension schemes (not just the LGPS) but the session focused on how it affected the Clwyd Pension Fund.
- The dashboard project is being run by the Department of Work and Pensions; it will allow individuals to access all of their pension schemes' information in one place to help plan for retirement and increase engagement. It is designed for members who have not yet retired (active and deferred members) - not for pensioners.
- The Pensions Regulator, Department of Work and Pensions, HM Treasury, the FCA, dashboard system providers, scheme managers and administration software providers all need to work together on this project in order for it to be delivered on time.

- The requirements are being set out in legislation compelling schemes to provide information through a dashboard. Hence the Fund was required to prepare data to connect to the pensions dashboards eco-system.
- Non-retired members would have access to pension arrangement details, employment details, accrued pension and estimated retirement income. However, limitations within this dashboard were expected so Mrs Williams was keen to promote the Fund's Member Self Service as this increased engagement directly with members.
- All public sector schemes are required to be onboarded to the pension dashboard infrastructure by September 2024, albeit this did not mean members would get access by September 2024. The date for going live is expected to be around the end of 2024.
- Also one element of data, called value data, did not need to be provided until April 2025, because of the ongoing work on the McCloud programme meaning this information may not be ready by September 2024.
- Once the pensions dashboard goes live, a member would log onto the dashboard, verify their information and the details would be sent to the Pensions Finder Service. Details would then be sent by them to all UK pension schemes and schemes are required to respond clarifying whether there is a match with their scheme records. When there is a positive match of a record, a 'PeI' (Pension Indicator) token is sent to the dashboard and the dashboard returns the tokens to schemes so further data is provided. Schemes then provide access to the appropriate pension data through the dashboard so the member can view it.
- The pensions dashboard would not hold data on an ongoing basis, and members will need to go through the same verification process to access information at a later date.
- It was estimated that every pension scheme could receive up to 20,000 enquiries a day asking to check for matches.
- The scheme could return a partial match but must provide contact details. Once returned, the member has 30 days to contact the scheme and confirm their pension information.
- Schemes were required to ensure they take reasonable, diligent steps to search for matches and minimise the risk of data breaches or not returning pension matches.
- For estimated retirement income (ERI), active members in the Fund (in DB schemes) would need to see a projected figure at retirement based on their current salary. Deferred members would need to see their pension at date of leaving revalued to a current date in accordance with scheme rules.
- The Fund needed to also be aware and comply with defined contribution scheme rules (as well as defined benefit scheme rules) due to the Fund having Additional Voluntary Contribution schemes that some members contribute too. For these, members would need to see their accrued pension pot, their projected pension amount (in line with money purchase

- illustrations) and an accrued pension amount (based on money purchase illustrations but without future contributions and investment growth).
- Schemes were expected to return ERI information within 10 working days for the main LGPS and 3 working days for the AVC schemes, which could be very demanding for any cases where this information is not readily available, such as members who have recently left employment but for whom deferred benefits have not been calculated.
 - Under the legislation, the legal responsibilities for connecting with the pensions dashboard lie with the Fund along with understanding the dashboard limitations, ensuring data and calculations are available, confirming matching requirements are used, dealing with ongoing queries, keeping data up-to-date and the regular reporting and day-to-day administration.
 - A key part of the work over the two years would be setting up the interface between the Fund's administration software and the pensions dashboards provider. It is possible that the same software firm could provide both.
 - The key tasks the Fund as administering authority must do to prepare are as follows:
 - o Understand the Pensions Dashboards framework.
 - o Plan and prepare a project plan leading up to the staging date.
 - o Explore the readiness of data including the ability to provide ERI calculated benefits.
 - o Confirm matching requirements.
 - o Consider communications with members.
 - So far, the Fund has had involvement with the PLSA Dashboard Group and the Altair Testing Group, has been doing ongoing data cleansing and recently completed address tracing and frozen refund exercises. These would hopefully reduce the number of partial matches that the Fund has going forward.
 - From a governance perspective, the Fund was liaising with Aon as well as Heywood, the Fund's administration software supplier, given the importance of this and the resource implications.
 - Ongoing costs and resourcing requirements cannot be determined yet but they will be brought to Committee in due course.

Mr Hibbert asked whether those responsible for the main dashboards took any responsibility for the information being provided on the dashboard, given the risk of cyber-attacks. Mrs Williams expected that they would take no responsibility for this but highlighted that it is being governed by strict guidelines that have been established nationally. She confirmed that she would look into this to ensure the Fund were comfortable on this matter. Mrs McWilliam highlighted that the dashboard would be like a switch board, so even though members could access the information, they could not physically hold the information. Mrs Williams did highlight that if the Fund incorrectly matched and sent it back, it would be a breach for the Fund.

RESOLVED:

The Committee noted the update.

18. INVESTMENT AND FUNDING UPDATE

Mrs Fielder noted the following key points:

- The business plan was currently on track in relation to the actuarial valuation and investment strategy statement work. However, the LGPS investment related developments were behind schedule due to the delay of consultations that were expected in the summer.
- New for this quarter from WPP was an update on voting and engagement, and stock lending. This would be updated on an ongoing basis going forward. Voting and engagement was carried out by Robeco and the stock lending was carried out by Northern Trust.
- Pages 419 to 464 covered the engagement and voting activity that Robeco carried out on behalf of WPP. The stocks listed in the report were for WPP as a whole and cover all sub-funds, not necessarily those that the Fund were invested in. The Fund was invested in three sub-funds at the moment.
- The Fund would engage with Robeco on an annual basis on future topics for engagement. If any Committee members wished for any themes to be covered in the future Mrs Fielder could put that forward to be included.
- The summary of the voting activity was included in the report and the RI sub-group received the individual voting reports behind the summaries.
- Another area the RI group was looking at was securities lending and the summary of the income generated in the stock was outlined in paragraph 1.08.
- Since the last Committee meeting, an additional investment had been made in the Copenhagen Infrastructure Partners Energy Transition Fund. This was in line with the Fund's desire to invest more sustainably, supporting and benefitting from opportunities that the transition to a low carbon economy would bring.
- The Fund were also working with Mercer on an additional 5 or 6 investment opportunities in the sustainable and impact areas.
- There were several changes to the risk register in light of the increased risks due to interest rate and inflation levels. These would continue to be monitored closely.
- The resourcing and recruitment challenges, referred to previously, also affect the Finance Team as they have three current vacancies - a fund accountant, a trainee accountant and a governance and administration position.

RESOLVED:

The Committee noted the update.

19. ASSET POOLING

Mr Latham congratulated the Chairman on his new position as Vice Chair of the WPP for a 12 month period.

Mr Latham highlighted that the sustainable equity fund had been approved by the JGC and this was something that had been instigated by this Committee. The next step is the FCA would review the submission carefully to ensure there was no greenwashing and it was noted this could take some time. Mr Latham hoped that the Fund would be able to invest in the sustainable offering once it had completed its investment strategy review.

Lastly, Mr Latham highlighted the ongoing work on private markets which Mrs Fielder was also heavily involved with. This was crucial given that the Fund had 27% of assets in private markets.

RESOLVED:

The Committee noted the update and discussed the JGC agenda.

20. ECONOMIC AND MARKET UPDATE AND PERFORMANCE MONITORING REPORT

Mr Harkin noted the following key points:

- He emphasised the difficult period for all assets over the quarter to 30 June 2022 with the exception of commodities which had performed strongly. Over this period, there had been pressure on equity markets which trended downwards as rising bond yields meant the present value of future earnings decreased.
- Over the quarter, the Fund's total market value decreased by c£185 million to £2,280.2 million. He believed that the Fund's assets had been resilient during a difficult time due to the diversified investment strategy overall.
- Despite that, the longer-term figures for the Fund's performance were still strong on a relative basis and the Fund had been protected through the flightpath strategy through difficult economic environments.
- The biggest challenge for the Fund currently was the inflationary pressure given that the 12 month CPI rate for the UK increased to 9.4% in June 2022. It was crucial to ensure that the Fund was protected, as far as possible, in the short-term against this type of inflationary pressure.
- It was hoped that the initial thoughts regarding the Investment Strategy Statement would be brought to the next Committee meeting in November but as it stood the Fund had a robust investment strategy.

RESOLVED:

The Committee noted the performance of the Fund over periods to the end of June 2022 along with the Economic and Market update which effectively set the scene.

21. FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK

Mr Middleman emphasised Mr Harkin's point regarding the inflationary pressures on the Fund and noted the following key points:

- At 31 March 2022 (at the valuation date), the funding level was estimated to be 101% and despite the challenging investment environment, the Fund was expected to still be ahead of the target funding level of 95% by 2% at 30 June 2022.
- The figures within the report were based on an update from the 2019 actuarial valuation as Mercer were currently in the middle of updating the 2022 actuarial valuation.
- The April 2023 pension increase could result in a possible 10%+ increase in member benefits. This would be beneficial for members but would put a strain on the Fund as it would increase the liabilities and some allowance for this would be made in the valuation.
- The changes in interest rates were noted. Mr Middleman confirmed this matter and how the Fund would deal with this would be discussed at the next FRMG meeting in the context of how it will affect funding and the flightpath.
- As noted in the report, the equity protection had been successful for the Fund in the last quarter despite the challenging period. Mr Middleman believed the Fund was in the best position at the moment due to the protections in place from the funding and flightpath strategy.

The Bank of England had a target to reduce the rate of inflation. Mr Latham therefore asked whether Mr Middleman believed that this was achievable. Mr Middleman said that for the 2022 valuation, it was assumed that the Bank of England would not meet its 2% CPI target as quickly as the Bank of England were stating, but it is not unreasonable that it could be met in, say, 5 years which is what has been built into the provisional assumptions. Reducing inflation more quickly would be positive in terms of the Fund's liabilities (all other things equal).

RESOLVED:

The Committee noted the update and considered the contents of the report.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the remainder of the meeting for the following items by virtue of exempt information under paragraph(s) 14 and 18 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

22. CYBER STRATEGY WORK PROGRAMME AND CYBER HYGIENE GUIDELINES - CONFIDENTIAL

This item of the agenda was presented and discussed.

The Chairman thanked everyone for their attendance and participation. The next formal Committee meeting is on 23 November 2022 and hopefully the Board can meet in person.

The meeting finished at 12:00pm.

.....

Chairman