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To: Cllr Ted Palmer (Chair)

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

Co-opted Members:
Steve Hibbert, Cllr. Andrew Rutherford, Cllr Gwyneth Ellis and
Cllr Anthony Wedlake

17 November 2022

Dear Sir/Madam

NOTICE OF REMOTE MEETING
CLWYD PENSION FUND COMMITTEE
WEDNESDAY, 23RD NOVEMBER, 2022 at 9.30 AM

Yours faithfully

Steven Goodrum
Democratic Services Manager

The meeting will be live streamed onto the Council's website. A recording of the meeting will also be available, shortly after the meeting at https://flintshire.publici.tv/core/portal/home

If you have any queries regarding this, please contact a member of the Democratic Services Team on 01352 702345.

A G E N D A

1 **APOLOGIES**

Purpose: To receive any apologies.

2 **DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)**

Purpose: To receive any Declarations and advise Members accordingly.

3 **MINUTES** (Pages 5 - 18)

Purpose: To confirm as a correct record the minutes of the last meeting held on the 31st August, 2022.

4 **CLWYD PENSION FUND ANNUAL REPORT INCLUDING ACCOUNTS 2021/22** (Pages 19 - 202)

Purpose: To provide Committee Members with the audited Clwyd Pension Fund Annual Report and Accounts for approval, and the external audit report.

5 **DRAFT FUNDING STRATEGY STATEMENT** (Pages 203 - 262)

Purpose: To provide Committee Members with the initial Actuarial Valuation results and draft Funding Strategy Statement to consider, review and approve for consultation with Employers.

6 **FUNDING, FLIGHT-PATH AND RISK MANAGEMENT FRAMEWORK** (Pages 263 - 286)

Purpose: To update Committee Members on the funding position, and the implementation of the Flight path and risk management framework.

7 **ECONOMIC AND MARKET UPDATE, AND INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 287 - 322)

Purpose: To provide Committee Members with an economic and market update, and performance of the Fund and Fund Managers.

8 **INVESTMENT AND FUNDING UPDATE** (Pages 323 - 442)

Purpose: To provide Committee Members with an update on investment and funding matters and to provide the response for the LGPS (England and Wales); Governance and reporting of climate changes risks consultation for approval.

9 **GOVERNANCE UPDATE AND CONSULTATIONS** (Pages 443 - 516)

Purpose: To provide Committee Members with an update on governance related matters, including the Governance Policy and Compliance Statement for approval.

10 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE** (Pages 517 - 558)

Purpose: To provide Committee Members with an update on administration and communication matters.

11 **POOLING INVESTMENTS IN WALES** (Pages 559 - 598)

Purpose: To provide Committee Members with an update on pooling investments in Wales matters.

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

The following item is considered to be exempt by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The public interest in withholding the information outweighs the public interest in disclosing the information.

12 **SUPPLIER CONTRACTS** (Pages 599 - 608)

Purpose: To ask Committee Members to approve extensions to various Fund contracts and to provide an update on Link Fund Solutions Limited.

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

The following item is considered to be exempt by virtue of Paragraph(s) 18 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The report contains details of measures to prevent cyber-crime and the public interest in withholding the information outweighs the interest in disclosing the information.

13 **CYBER STRATEGY WORK PROGRAMME** (Pages 609 - 618)

Purpose: To provide Committee Members with an update on the Fund's cyber strategy work including the FCC cyber assessment outcomes.

14 **FUTURE MEETINGS**

Purpose: Future meetings of the Clwyd Pension Fund will take place at 9.30 am on :-

Wednesday, 15th February 2023
Wednesday, 29th March 2023
Wednesday, 21st June 2023

Procedural Note on the conduct of meetings

The Chair will open the meeting and introduce themselves.

The meeting will be attended by a number of Councillors. Officers will also be in attendance to present reports, with Democratic Services officers acting as hosts of the meeting.

All attendees are asked to ensure their mobile phones are switched off and that any background noise is kept to a minimum.

All microphones are to be kept muted during the meeting and should only be un-muted when invited to speak by the Chair. When invitees have finished speaking they should go back on mute.

To indicate to speak, Councillors will use the chat facility or use the electronic raise hand function. The chat function may also be used for questions, relevant comments and officer advice and updates.

The Chair will call the speakers, with elected Members addressed as 'Councillor' and officers addressed by their job title e.g. Chief Executive' or name. From time to time, the officer advising the Chair will explain procedural points or suggest alternative wording for proposals, to assist the Committee.

If and when a vote is taken, the Chair will explain that only those who oppose the proposal(s), or who wish to abstain will need to indicate, using the chat function. The officer advising the Chair will indicate whether the proposals are carried.

If a more formal vote is needed, this will be by roll call – where each Councillor will be asked in turn (alphabetically) how s/he wishes to vote

At County Council and Planning Committee meetings speaker's times are limited. A bell will be sounded to alert that the speaker has one minute remaining

The meeting will be live streamed onto the Council's website. A recording of the meeting will also be available, shortly after the meeting at https://flintshire.public-i.tv/core/portal/home

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.

201. **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.

202. **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.

203. **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:
    - Assets which included cash but excluded net assets increased from £2.2 billion to £2.5 billion.
    - Contributions from employees and employers increased by £3.4 million.
    - Transfers into the Fund, which were difficult to estimate, increased by £3.5 million.
    - Income over expenditure, excluding fees and investment income, was £4 million compared to £2 million last year.
    - 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.
    - 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.

204. **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.

205. **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.

206. **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:
    - Understand the Pensions Dashboards framework.
    - Plan and prepare a project plan leading up to the staging date.
    - Explore the readiness of data including the ability to provide ERI calculated benefits.
    - Confirm matching requirements.
    - 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.

207. **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.

209. **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.

210. **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.

211. **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).

212. **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.

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Chairman

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Date of Meeting	Wednesday 23rd November 2022
Report Subject	Clwyd Pension Fund Annual Report 2021/22
Report Author	Deputy Head Clwyd Pension Fund

EXECUTIVE SUMMARY

LGPS Regulations require the Clwyd Pension Fund (the Fund) to publish an Annual Report before 1st December each year. The regulations and CIPFA best practice guidance advise on the content.

The Annual Report for 2021/22 is attached as Appendix 1 to this report. The Annual Report includes the Fund's Statement of Accounts, which has been audited by Audit Wales. The Audit Wales Audit of Accounts Report is attached as Appendix 2, and the Final Letter of Representation as Appendix 3.

The Annual Report includes statutory and best practice policies and statements. These are not attached to the report as they have previously been approved by the Committee, but are available on the Fund's website. Those which are of a statutory nature will be included in the report when it is published. Other non statutory information relating to the report, which is all available on the Fund's website, will be signposted in the published version of the report.

RECOMMENDATIONS	
1	That members approve the Fund's Annual Report for 2021/22 including the Statement of Accounts.
2	That members consider the Audit of Accounts Report
3	That members approve the final Letter of Representation

REPORT DETAILS

1.00	**Annual Report and Accounts**
1.01	As in previous years, the main structure of the report consists of a series of reports from senior officers and advisors to the Fund. These are: - A report on the governance of the Fund, the training of Committee and Board members, and risk management - A report from the Fund's Independent Advisor - A report from the Pension Board - A report on the administration of the Fund - A report from the Fund's actuary - A report from the Fund's investment consultants - A report on the Fund's financial activity In addition, the Fund's Statement of Accounts and Annual Governance Statement are included. The Annual Report is required to include certain statutory strategies and these will be included in the report when it is published, along with signposting to non-statutory information which is felt relevant to the Report.
1.02	The latest CIPFA guidance, which they provide to Local Government Pension scheme administering authorities to ensure that their annual reports are completed in accordance with best practice, was published in March 2019. The guidance has been followed wherever possible in the preparation of this report. The Committee received the original draft Annual Report as part of the 31st August 2022 agenda and no material changes have been required following the audit.
1.03	The Audit Wales Audit of Accounts Report states: "In my opinion, based on the work undertaken in the course of my audit the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013."
1.04	The Fund's Statement of Accounts is included as part of the Annual Report. Members will recall that a draft Statement of Accounts was signed off by the Corporate Finance Manager as Section 151 Officer prior to the Committee meeting on August 31st 2022 where the draft Annual Report was presented for consideration by members.
1.05	The audit of the 2021/22 Statement of Accounts is now substantially complete, although the audit continues up until the point at which it is formally signed off by the auditors which will be before the 1st December 2022 deadline for publishing the Annual Report.
1.06	A copy of the Statement of Accounts for 2021/22 is included in the Annual Report as Appendix 7 to Section 2 on page 89. It incorporates all changes agreed with Audit Wales during the course of the audit.

1.07	Audit Wales are required to provide an opinion and communicate relevant matters arising from the audit to the Clwyd Pension Fund Committee which is charged with governance of the Fund. Attached at Appendix 2 is the Audit of Accounts Report subsequently received from Audit Wales and they will be in attendance at the meeting to present this report. The Audit report states: "In my opinion the financial statements: • give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities; and • have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022."
1.08	The report includes details of any issues arising from the audit, and also a summary of the corrections made to the Statement of Accounts after the audit. It was pleasing to note that there were no significant issues to report this year. There was a misstatement identified which was below materiality but slightly above triviality which officers chose to correct in the accounts. This related to private market valuations which were as at December 31st 2021 when the accounts were produced. Updated valuations at March 31st 2022 were received during the audit amounting to £1,303,469 resulting in an increase to the closing net assets of the scheme. The Fund also included an updated Post Balance Sheet Event disclosure for the impact on the investments held by the Fund due to the changes in the economic environment since 31st March 2022.
1.09	The Letter of Representation shown at Appendix 3 confirms to Audit Wales that all the information contained in the financial statements is true and accurate and that all information has been disclosed. It is recommended that Committee approve the Letter of Representation which is required for Audit Wales to provide the unqualified audit opinion

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

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	This report and its attachments have been subject to consultation with the Section 151 Officer.

4.00	**RISK MANAGEMENT**
4.01	The contents of the Annual Report and the external audit both include information reviewing and identifying how the risk to the Fund is being managed. These include strategic, operational and financial risks.

4.02	The external audit of the accounts will specifically consider financial risks and how well the Fund is managing those risks.

5.00	**APPENDICES**
5.01	Appendix 1 – Draft Annual Report 2021/22 Appendix 2 – Audit Wales Audit of Accounts Report 2021/22 Appendix 3 – Final Letter of Representation

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	The statutory documents that will be included can be found on the Fund's website here - https://mss.clwydpensionfund.org.uk/home/investments-and-governance/strategies-and-policies/ **Contact Officer:** Debbie Fielder, Deputy Head, Clwyd Pension Fund **Telephone:** 01352 702259 **E-mail:** debbie.a.fielder@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **LGPS – Local Government Pension Scheme** – the national scheme, of which Clwyd Pension Fund is part. (b) **Audit Wales** – Welsh public body charged with assuring public money is managed well, explaining how it is used and driving public sector improvement. (c) **International Standard on Auditing** - deals with the independent auditor's overall responsibilities when conducting an audit of financial statements (d) **Chartered Institute of Public Finance and Accountancy (CIPFA)–** the professional body for people in public finance.

Cronfa Bensiynau Clwyd

Clwyd Pension Fund

Gweinyddwyd gan
Administered by

Cyngor Sir y Fflint
Flintshire County Council

CLWYD PENSION FUND: ANNUAL REPORT 2021/22

Clwyd Pension Fund Annual Report 2021/22

Contents Page

For best practice documents, please go to:
https://mss.clwydpensionfund.org.uk/home/investments-and-governance/

- Business Plan
- Administration Strategy
- Breaches Policy
- Risk Policy
- Conflicts of Interest Policy
- Knowledge and Skills Policy

Section 1

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Introduction to the Clwyd Pension Fund Annual Report 2021/22

Welcome to the Clwyd Pension Fund (the Fund) Annual Report for 2021/22.

The report covers in detail the activities of the Fund during 2021/22. Although the Fund did not experience the same level of business disruption as 2020/21 it was another challenging year and despite continued remote working for the team, and international financial market instability arising from the conflict in Ukraine and more recently, rising inflation, the Fund has continued to operate in a secure and efficient way and we have continued to meet the needs and expectations of our members and employers.

I am pleased to confirm that during the year the Fund maintained a fully funded position and continues to be ahead of timetable, which remains an outstanding achievement given external market factors. We will seek to consolidate and build on this position and await the outcomes of the Actuary's triennial valuation assessment and an Investment Strategy Review during the year ahead, which will shape the Fund's strategic direction going forwards.

I would like to thank all those involved in the governance and management of the Fund for their continuing hard work and dedication, including Colin Everett, the former Chief Executive of Flintshire County Council who was a member of the Advisory Panel.

I do hope that you find the report interesting and informative.

Cllr Ted Palmer

Chair of the Clwyd Pension Fund Committee

Section 2

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Summary by the Head of Clwyd Pension Fund

This section of the report highlights some of the main elements of this year's Annual Report, and explains how to use the report to find more information about the activities and performance of the Fund during the year, along with some of the challenges and risks which the Fund faces moving forward.

Governance, Training and Risk Management

Flintshire County Council is the Administering Authority for the Fund, and delegates responsibility for running the Fund to a Pension Fund Committee. The work of the Committee is supported by a Pensions Advisory Panel. In addition, a Pension Board, chaired by the Fund's Independent Advisor, assists the Committee in ensuring compliance with legislation and the Pension Regulator's requirements in addition to ensuring efficient governance and administration of the Fund. Against the continued backdrop of the COVID-19 pandemic, the Committee, Advisory Panel and Pension Board have again continued to function effectively during 2021/22.

The Fund is required to produce an Annual Governance Statement and this is found in Section 3 of this report.

The Fund's Knowledge and Skills Policy ensures that those charged with Governance including senior officers of the Fund have the appropriate knowledge and skills to ensure the Fund is appropriately managed. Attendance at training is recorded and monitored to ensure that the training is fully effective.

The risk landscape within which the Fund operates is complex and the risks which the Fund faces are often as a result of events outside the Fund's control. This was evident in the risks arising from the potential impact of the COVID-19 pandemic. The Fund has a well-established and effective approach to risk management, including maintaining a risk register which is regularly monitored and reported to those charged with governance.

The Governance, Training and Risk Management Report, the Independent Advisor Report and the Pension Board Annual Report are found in Appendices 1-3 respectively in this report.

Funding

Despite volatility during the year caused by the pandemic globally, the conflict in Ukraine and more recently, the impact of rising inflation, the funding position has improved slightly during the year relative to the 31 March 2021 position, and by the end of the financial year it was estimated to still be fully funded, which is ahead of the 2026 target date for full funding.

A key part of the Funding Strategy Statement is the Fund's Flightpath Strategy, which is designed to provide stability of funding and stability to employer contribution rates in the long term. This has been monitored and revised during the year to ensure its continuing effectiveness.

Future challenges in respect of funding include:

- maintaining the funding level
- managing the impact of a very challenging global economic outlook, in particular rising inflation and interest rates, when considering the 2022 valuation outcomes
- considering the impact of climate change on the funding strategy (via modelling to be undertaken as part of the 2022 valuation)

The funding position (and contribution outcomes for all employers) are being reviewed in full by the Actuary as part of the 31 March 2022 actuarial valuation (with new rates becoming effective from 1 April 2023). The Funding Strategy Statement will also be updated and consulted on with employers as part of the valuation process.

Further details of the funding position can be found in the Funding and Flightpath Review which is Appendix 5 to this report.

Investment

Investment activity operates within the objectives defined by the Investment Strategy Statement (which was reviewed during 2021/22 and updated in February 2022). Each of these objectives reflects the Fund's desire to incorporate sustainability and act as a Responsible Investor in its investment approach.

During 2021/22 the Fund's investments returned 13.3% despite the volatility in the global markets caused by the ongoing COVID-19 pandemic, the conflict in Ukraine and rising inflation. Given the volatility experienced in recent years, it's important to view performance in the context of longer-term performance. Overall, the investments returned 9.9% per annum over the three years to March 31st 2022, compared to a benchmark of 8.9% per annum. The performance is also well ahead of the assumption of growth in the Funding Strategy Statement which is Consumer Price Index plus 2.25% per annum.

In light of the Ukraine conflict, Wales Pension Partnership committed to divest from Russian stocks as soon as was practical. In the absence of being able to divest from such stocks directly, as at 31 March 2022, such stocks in the Global Opportunities Equity Fund and the Emerging Market Equity Fund had been written down to nil and the impact of this emerges in the year-end asset values quoted in this report.

Key investment performers during the year were the Tactical Asset Allocation Portfolio (20.3%), along with the Cash and Risk Management Framework (17.9%), and the Private Market assets, which returned 26.4%. The Fund's total equity mandates returned 2.3%.

During the year the Fund continued to transition assets to the Wales Pension Partnership in line with its commitment to pooling of LGPS assets.

The Fund has continued to progress significantly on work relating to the Responsible Investment Priorities in the Investment Strategy Statement (updated in 2022). In particular the Fund has approved a strategy to achieve net-zero carbon emissions from its portfolio by 2045, with an interim target of carbon reduction of 50% by 2030. The Fund continues to educate its Committee members to aid their understanding of Responsible Investment. The Fund continues to deploy capital into sustainable and local investments and engages with asset managers in relation to Responsible Investment principles.

Against the backdrop of continued market volatility in the early part of 2022/23, the 2022 actuarial valuation, and the current stagflationary environment, the investment strategy will be reviewed again later in 2022/23.

Further details of the investment activity may be found in the Investment Policy and Performance Report which is Appendix 6 to this report. The current Investment Strategy Statement can be found in Appendix 11.

Administration

The Administration and Communication Strategies frame the work of the Fund's Administration Team. The Administration Strategy was updated in March 2021, consolidating information previously held in employer Service Level Agreements. The Communications Strategy was updated in 2021/22 (approved June 2022) and reflects advances in technology to aid communications with stakeholders.

On a day to day basis, the Administration Team provides a service covering the calculation and payment of benefits, transfers in and out of the Fund, the maintenance of individual members' records and communications and advice to members and employers. During the year, around 31,000 cases involving all activities across the team were completed. During 2021/22 the Team has continued to deliver a high quality service despite the ongoing challenges posed by the impact of the COVID-19 pandemic.

In addition to this work, the Team has been working on a number of projects designed to improve the quality of the service provided to members and employers:

- continuing to develop and implement a data improvement plan. Data Quality is improving and progress against the plan will continue to be monitored
- developing further Key Performance Indicators (KPIs) to help improve performance monitoring
- continuing the roll out of the i-Connect system, allowing employers to directly enter and update information to the Fund's database. At 31st March 2022, 99% of member information was being updated by employers using the i-Connect system.
- improving accessibility to the Fund's website, and the quality of the website generally
- working closely with employers on compliance statements and through the Employer Liaison Team
- establishing a McCloud Programme to implement the remedy for the Fund once the LGPS regulations are amended (with the initial focus being on collecting historical data from employers)

The Fund continues to monitor performance using KPIs and introduced 6 new KPIs during 2021/22.

In addition to those mentioned above, the Administration Team faces a number of challenges going forward. Key amongst these are:

- involvement in the development of a new National Pensions Dashboard
- responding to possible changes resulting from the Cost Management Process and the proposed increase in minimum retirement age from April 2028.

Further details of the administration of the Fund may be found in the Administration Report which is Appendix 4 to this report.

Finance

The total net assets of the Fund (excluding cash) at 31st March 2022 was £2,376m. Total contributions for the year from members and employees together with transfers into the Fund were £92m, with benefits and other payments to members £88m. Total management expenses paid by the Fund were £26m, with an increase in the Funds market value and income of £263m. The Fund continues to transition assets to the Wales Pension Partnership with the intention of saving costs and improving returns on investments, and this will continue in 2022/23.

The Fund continues to operate within its budget. Key variances against budget during the year were underspends on manager fees, actuarial fees, administration employee costs and direct costs associated with the employer liaison team. Pooling fees were higher than budgeted for given the further transition of assets to the Wales Pension Partnership over the year.

Further details of the Fund's finances can be found in the Fund's Statement of Accounts which is Appendix 7 to this report, and the Financial Report which is Appendix 8.

Other information

Four key strategy statements also form part of this report. They are the Governance and Compliance Statement (Appendix 9), the Funding Strategy Statement (Appendix 10), the Investment Strategy Statement (Appendix 11) and the Communication Strategy Statement (Appendix 12).

The following documents may also be found on the Fund's website at: https://mss.clwydpensionfund.org.uk/home/investments-and-governance/

- Business Plan
- Administration Strategy
- Breaches Policy
- Conflicts of Interest Policy
- Knowledge and Skills Policy

Overall, despite a challenging year, the Fund has improved both financially and with the service provided to our members and employers. We will seek to both consolidate and improve in 2022/23 in line with the Fund's Mission Statement.

Philip Latham
Head of Clwyd Pension Fund

Clwyd Pension Fund Mission Statement

We will be known as forward thinking, responsive, pro-active and professional providing excellent customer focused, reputable and credible service to all our customers.

We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.

We will work effectively with partners, being solution focused with a can do approach.

Appendix 1 - Governance, Training and Risk Management

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Introduction

This report covers the way in which Clwyd Pension Fund (the Fund) is governed, which includes how the knowledge and skills requirements of those charged with the governance and operations of the Fund have been met. It also details the key partners of the Fund and how the Fund approaches with risk management.

The Fund has a number of governance related policies and strategies which outline the strategic governance objectives in these areas and how they will be managed and delivered. These are:

Governance Policy and Compliance Statement

- Risk Policy
- Conflicts of Interest Policy
- Knowledge and Skills Policy
- Procedure for Recording and Reporting Breaches of the Law.

Another key document is the Fund's three-year Business Plan. The version relating to 2021/2022 to 2023/2024 was approved at the Pension Fund Committee in March 2021.

The latest versions of these documents can be found in the Strategies and Policies section of the Fund's website -

https://mss.clwydpensionfund.org.uk/home/investments-and-governance/strategies-and-policies/

Governance Structure

Background

To carry out the responsibilities relating to the management of Clwyd Pension Fund, Flintshire County Council, as Administering Authority to the Fund, has established a formal Pension Fund Committee (the Committee), supported by a Pensions Advisory Panel (the Panel). The Committee includes both scheme member and employer representatives who have full voting rights. In performing its role the Committee takes advice from the Panel (a group of officers and professional advisors). The Committee has a scheme of delegation to officers to ensure efficient management and timely decision making on urgent matters between meetings.

It receives monitoring reports at each quarterly Committee against the Governance, Funding, Investment, Administration and Communication Strategies and progress against the Fund's three-year Business Plan. The agenda, reports and minutes for each Committee meeting are available on the Flintshire County Council website – www.flintshire.gov.uk. The membership of both the Committee and the Panel are shown below.

Flintshire County Council has also established the Clwyd Pension Board (the Board). The role of the Board as defined in regulation is to assist in:

- securing compliance with legislation and the Pensions Regulator's requirements and
- ensuring effective and efficient governance and administration of the Fund.

The minutes of the Board's meetings are included in the Committee agenda papers and Board members often attend Committee, making an important contribution to debates and discussion. The Board annual report is included within this Annual Report.

Further information about the Board can be found on the Fund's website https://mss.clwydpensionfund.org.uk/home/investments-and-governance/local-pension-board

Clwyd Pension Fund Committee

Committee Members		
Flintshire County Council	Cllr Ted Palmer (Chair)	
Flintshire County Council	Cllr Haydn Bateman (Vice Chair)	To May 2022
Flintshire County Council	Cllr Dave Hughes (Vice Chair)	Appointed May 2021 and appointed Vice Chair May 2022
Flintshire County Council	Cllr Billy Mullin	To May 2021
Flintshire County Council	Cllr Jason Shallcross	Appointed May 2022
Flintshire County Council	Cllr Ralph Small	To May 2022
Flintshire County Council	Cllr Antony Wren	Appointed May 2022
Flintshire County Council	Cllr Tim Roberts	To May 2022
Flintshire County Council	Cllr Sam Swash	Appointed May 2022
Denbighshire County Council	Cllr Julian Thompson - Hill	To May 2022
Denbighshire County Council	Cllr Gwyneth Ellis	Appointed May 2022
Wrexham County Borough Council	Cllr Nigel Williams	To May 2022
Wrexham County Borough Council	Cllr Anthony Wedlake	Appointed May 2022
Scheduled Body Representative	Cllr Andrew Rutherford	
Member Representative	Mr Steve Hibbert	

Advisory Panel

Panel Members	
Chief Executive (FCC) (to 31 October 2021)	Colin Everett
Corporate Finance Manager/ S151 Officer (FCC)	Gary Ferguson CPFA
Senior Manager – Human Resources and Organisational Development (from 1 November 2021)	Sharon Carney
Head of Clwyd Pension Fund (FCC)	Philip Latham
Investment Consultant (Mercer)	Kieran Harkin
Fund Actuary (Mercer)	Paul Middleman FIA
Independent Advisor (Aon)	Karen McWilliam FCIPP

Clwyd Pension Fund Board

Local Board Members		Voting Rights
Independent Chair	Karen McWilliam	X
Employer Representative	Steve Gadd	√
Employer Representative	Steve Jackson	√
Scheme Member Representative	Phil Pumford	√
Scheme Member Representative	Elaine Williams	√

Investment Managers

The Fund has a number of investments with managers investing in Property, Private Equity, Private Debt, Infrastructure, Timber & Agriculture which are listed in the Investment Policy & Performance section of this report.

Investment Managers	Address
BlackRock	12 Throgmorton Avenue, London
Insight Investment	160 Queen Victoria Street, London
Man Group	Riverbank House, 2 Swan Lane, London

Investment Managers	Address
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London
Russell Investments	Rex House, 10 Regent Street, London

Other Key Partners

Service	Address
Custodian: Bank of New York Mellon	160 Queen Victoria Street, London
Actuary and Benefit Consultants: Mercer Ltd	4 St Paul's Square, Old Hall Street, Liverpool
Investment Consultant: Mercer Ltd	12 Booth Street, Manchester
Independent Advisor: Aon Solutions UK Ltd	122 Leadenhall Street, London
External Auditors: Audit Wales	24 Cathedral Road, Cardiff
Bank: National Westminster Bank plc	48 High Street, Mold
AVC Provider: Prudential	121 King's Road, Reading
AVC Provider: Utmost Life & Pensions	Utmost House, 6 Vale Avenue, Tunbridge Wells
Legal Advisors: This varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the LGPS National Legal Services Framework.	

Clwyd Pension Fund Contact Details

Name	Post	Contact details
Philip Latham	Head of Clwyd Pension Fund	(01352) 702264
Debbie Fielder	Deputy Head of Clwyd Pension Fund	(01352) 702259
Karen Williams	Pensions Administration Manager	(01352) 702963
Pensions Administration	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance	pensionsinvestments@flintshire.gov.uk	(01352) 702812

Knowledge and Skills

Clwyd Pension Fund Knowledge and Skills Policy

There is a growing need for LGPS Pension Committee members, Pension Board members and officers to have the knowledge and skills to ensure LGPS funds are appropriately managed, and decisions around their management are robust and well based. This need is being emphasised in codes of practice and guidance including by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Pensions Regulator (TPR) as well as various elements of legislation.

The Fund has a well-developed Knowledge and Skills Policy which was updated in September 2021 to reflect the latest CIPFA Code of Practice and guidance. It details the knowledge, skills and training strategy for members of the Committee, the Board and senior officers responsible for the management of the Fund. It has been created to provide a formal framework and greater transparency on how the relevant knowledge and skills are acquired and retained in accordance with the Fund's aspirations and national requirements. It aids existing and future Committee members, Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Fund is managed by individuals who have the appropriate levels of knowledge and skills. Details of how to access the Knowledge and Skills Policy are included in the contents page of this Annual Report.

Training Performance 2021/22

The Fund has a Training Plan which is provided to both Committee and Board Members and details all the training to be covered during the year. Due to continuing restrictions on face to face events, Members were provided training where possible by virtual platforms. During the year some conferences were held virtually and others in hybrid format, and many providers continued to offer webinar training events which some of the Committee and Board chose to attend.

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of the Fund’s Knowledge and Skills Policy, we monitor and report on attendance at training events based on the following:

a) Individual Training Needs – ensuring a training needs analysis is carried out at least once every two years which drives the content of the Fund's Training Plan.

b) Hot Topic Training –targeting attendance by at least 75% of the required Pension Fund Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focused at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.

c) General Awareness – each Pension Fund Committee member, Pension Board member or senior officer attending at least one day each year of general awareness training or events.

d) Induction training – ensuring areas of identified individual training are completed within six months of appointment.

Actual performance in 2021/22 was as follows:

a) Individual Training Needs – The last training needs analysis was completed in the Spring of 2020, which drove the training completed over 2020/21 and 2021/22. This biennial analysis is due to take place again in summer or autumn of 2022 to assess training needs over the next two years. Although this is outside of the two year target, it was deferred due to the Welsh local authority elections in May 2022 which could impact on membership of the Pension Fund Committee.

b) Hot Topic Training – Of the designated hot topic training sessions, attendance has been as follows:

Course	**Committee**		**Board**	
	No	**% attendance**	**No**	**% attendance**
Funding / Flightpath I	7	78%	1	20%
Fossil Fuel and Divestment	9	100%	4	80%
Responsible Investment Roadmap	8	89%	3	60%
Funding / Flightpath 2	3	33%	2	40%
Conflicts of Interest	7	78%	5	100%
Cyber Security	8	89%	5	100%
Tax / Annual Allowance	7	78%	5	100%

As can be seen, in the majority of cases the target attendance was achieved and attendance in general was higher than in 2020/21 even though there were more Hot Topic sessions in 2021/22 (7 compared to 3 in 2020/21).

c) General Awareness - Out of the combined 14 Committee and Board members, 10 (71%) completed at least one general awareness day in accordance with the policy. In percentage terms this is a decline from the previous year (when 10 out of 13 attended at least one day). We believe this is due to time constraints and possibly fewer training opportunities due to the ongoing pandemic.

d) Induction Training – Induction sessions were completed by May 2021 for 4 new members (3 Committee and 1 Board) who were elected in the 2020/21 year. The sessions were delivered within six months of joining for all but 1 of the new members. Recordings of the sessions were made available for those not able to attend. Similar training is currently taking place for the new members elected at the 2022 Welsh elections.

The following table details all the training provided to members of the Committee during 2021/22 to satisfy the requirements of the Knowledge and Skills Policy. This includes Committee meetings attended and relevant training sessions, conferences and seminars. Board Members also received and completed relevant training in line with the Policy, details of which are included in the Pension Board Annual Report.

Date	Event	Committee Members									
		Cllr T Palmer	Cllr H Bateman	Cllr B Mullin*	Cllr R Small	Cllr T Roberts	Cllr N Williams	Cllr J Thompson-Hill	Cllr D Hughes*	Cllr A Rutherford	S Hibbert
	Meeting										
Nov 21	Annual Joint Consultative Meeting				✓				✓	✓	✓
Jun 21	Committee meeting June	✓	✓		✓	✓	✓	✓	✓		✓
Sep 21	Committee meeting September	✓	✓			✓	✓	✓	✓	✓	✓
Nov 21	Committee meeting November	✓	✓		✓	✓		✓	✓	✓	✓
	Hot Topic										
Apr 21	Funding / Flightpath I	✓	✓	✓	✓	✓	✓				✓
May 21	Fossil Fuel and Divestment	✓	✓	✓	✓		✓	✓	✓	✓	✓
May 21	Responsible Investment Roadmap	✓	✓	✓	✓		✓	✓		✓	✓
Jul 21	Funding / Flightpath 2								✓	✓	✓
Nov 21	Conflicts of Interest	✓	✓		✓			✓	✓	✓	✓
Dec 21	Cyber Security	✓	✓		✓	✓	✓		✓	✓	✓
Jan 22	Tax / Annual and Lifetime Allowances	✓	✓		✓	✓			✓	✓	✓
	General Awareness										
May 21	PLSA Conference May 2021										✓

Date	Event	Committee Members									
		Cllr T Palmer	Cllr H Bateman	Cllr B Mullin*	Cllr R Small	Cllr T Roberts	Cllr N Williams	Cllr J Thompson-Hill	Cllr D Hughes*	Cllr A Rutherford	S Hibbert
Jun 21	LGC Conference										✓
Jun 21	Sustainable Investment Forum Conference										✓
Jun 21	PLSA ESG Conference June 2021									✓	✓
Jul 21	PLSA ESG Conference July 2021									✓	✓
Sep 21	LGC September Conference	✓			✓				✓		
Oct 21	PLSA conference October 2021										✓
Dec 21	LAPFF Conference										✓
Jan 22	LGA Annual Conference										✓
Mar 22	LGC Conference – Carden Park	✓			✓				✓		✓
	Induction										
Apr 21	Investment Practice	✓			✓			✓			
Apr 21	Administration	✓						✓			
Apr 21	Accounting Audit & Procurement	✓			✓						
May 21	Communications	✓						✓			
	Other Wales Pension Partnership Training										
Apr 21	WPP Training Private Markets & Fund Wrappers		✓	✓	✓						
Jun 21	WPP Emerging Market Managers	✓									

Date	Event	Committee Members									
		Cllr T Palmer	Cllr H Bateman	Cllr B Mullin*	Cllr R Small	Cllr T Roberts	Cllr N Williams	Cllr J Thompson-Hill	Cllr D Hughes*	Cllr A Rutherford	S Hibbert
Jul 21	WPP Training RI benchmarks and Reporting				✓					✓	✓
Sep 21	WPP Operator Role (JGC only)	✓									
Oct 21	WPP Performance reporting / ACS Roles and Responsibilities			✓		✓			✓	✓	✓
Jan 22	WPP Pools / Collaboration	✓	✓				✓		✓		
Mar 22	WPP Good Governance / Cost Transparency	✓						✓	✓	✓	

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*Cllr Mullin left the Committee in May 2021 and Cllr Hughes, a former Chair, re-joined the Committee in May 2021

In addition, Committee and Board members are encouraged to attend other suitable events. The scheme member representative of the Committee attended a further 31 training events including Unison Carbon Tracker Initiative, Aon’s Pensions Dashboard and Climate and Just Transition Pensions events, Pensions Lifetime Savings Association (PLSA) – ESG (Environmental, Social and Governance) Conferences and the MOT for Liability Driven Investment event and Hymans’ and Mercer’s Valuations 2022 training events.

As the new Policy came into force mid-way through the year, not all of the training attended by Senior Officers has been fully recorded. As a result, they have not been included within the training performance statistics above.

Risk Management

Background

Risk management is embedded in the governance of the Fund. The Committee has approved a Risk Management Policy and a risk register is maintained. Changes to the level of risk are reported at each Committee.

Given that many pension fund risks are outside the Fund's control, risk management focuses on measuring the current risk against the Fund's agreed target risk (which may still be relatively high), summarising the existing controls and identifying further controls that can be put in place. This risk management process is integral to identifying actions that are then included in the Fund's Business Plan.

Significant Risks

Overall the next few years will continue to be challenging for those involved in the governance, management and operation of the Fund. The risks discussed below are documented in the risk register which will continue to be updated at each Committee meeting as circumstances change. The risks shown are those risks which, as at March 2022, were identified as amber i.e. with moderate consequences that are considered a possible occurrence, or higher, and where we were not meeting the target risk exposure.

Since March, as you can read in other areas of this report, some of these risks have changed and there are other risks that are now more significant or not meeting their target risk exposure. The tables also show the latest agreed actions.

Key:

Risk Exposure	Impact/Likelihood
Black	Catastrophic consequences, almost certain to happen
Red	Major consequences, likely to happen
Amber	Moderate consequences, possible occurrence.
Yellow	Minor consequences, unlikely to happen.
Green	Insignificant consequences, almost very unlikely to happen.

Governance

Risk Description (if this happens)	Risk Overview (this will happen)	Risk Status at March 2022	Target Risk Status	Further Action
Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades	Services are not being delivered to meet legal and policy objectives	Red	Green	1 - Recruit to vacant governance, administration, communications, business, Fund accountant and Trainee Fund accountant roles 2 - Ongoing consideration of business continuity including succession planning 3- Action plan being developed for recruitment, retention, succession planning

Funding & Investment

Risk Description (if this happens)	Risk Overview (this will happen)	Risk Status at March 2022	Target Risk Status	Further Action
Market factors impact on inflation and interest rates	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Amber	Yellow	1 - Consider as part of Triennial Actuarial Valuation
1. Responsible Investment (including Climate Change) is not properly considered within the Fund’s long-term Investment Strategy meaning it is not sustainable and does not address all areas of being a Responsible Investor 2. WPP does not provide CPF with the tools to enable implementation of RI policies	The Fund's Long term Investment Strategy fails to deliver on its ambition and objectives as a Responsible Investor.	Red	Amber	1 - Implement Strategic RI Priorities, including ongoing analysis of the Fund’s carbon Footprint. Identify sustainable investment opportunities and improve disclosure and reporting 2 - Work with WPP to ensure the Fund is able to implement effectively via the Pool

Administration & Communication

Risk Description (if this happens)	Risk Overview (this will happen)	Risk Status at March 2022	Target Risk Status	Further Action
That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades (including due to Covid-19)	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	Amber	Yellow	1 - Ongoing recruitment of vacant posts 2 - Action plan being developed for recruitment, retention, succession planning
Employers: - don't understand or meet their responsibilities - don't have access to efficient data transmission - don't allocate sufficient resources to pension matters (including due to Covid-19)	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Amber	Green	1 - Implement new process for employers relating to service standards

Risk Description (if this happens)	Risk Overview (this will happen)	Risk Status at March 2022	Target Risk Status	Further Action
Systems are not kept up to date or not utilised appropriately, or other processes inefficient (including McCloud and potential exit cap)	High administration costs and/or errors	Amber	Green	1 - Review pension admin system contract 2 - If delays in system upgrades, look for alternative solutions to administer regulatory changes
System failure or unavailability, including as a result of cybercrime and Covid-19	Service provision is interrupted	Amber	Green	1 - Develop updated business continuity plan for CPF 2 - Implement remaining elements of cyber strategy 3 - Develop post Covid-19 approach to working arrangements

Appendix 2 - Independent Adviser's Report

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Annual Report of Karen McWilliam

This annual report is written in my role as Independent Adviser to the Clwyd Pension Fund, focusing on the year 2021/22.

At a glance…

- The year 2021/22 has proven to be a different kind of challenge in respect to previous years, as we emerge from the COVID-19 pandemic. It is with pride that, in this report, I share how the Clwyd Pension Fund officers, Pension Fund Committee and Pension Board members have adapted to the "new normal" and managed to make significant progress on many areas, including:
- approving a Fund Cyber Strategy and making excellent progress in better understanding the Fund's resilience to cybercrime
- making excellent progress against responsible investment priorities and agreeing a new net-zero target and interim carbon reduction targets
- continued improvement in administration performance, despite continuing increases in case numbers, and large increases in members using the self-service facility.
- So much has been achieved in this virtual environment despite the difficulties faced which is of great credit to all involved, and in my view the overall management and governance of the Fund continues to be in an extremely good position.
- Going forward my biggest concerns relate to the number of major projects and developments that need to be delivered in the next few years, most of which are driven by national changes; this is against a backdrop of difficulties in recruiting and retaining staff (and potential retirements within the pensions team). Although the commitment and dedication of those involved in managing the Fund and on the operational side of delivering these changes alongside day to day business is exceptional, solutions will need to be found to fill existing vacant positions and to manage ongoing challenges with recruitment and retention.

My role

My remit is to provide independent advice to the Clwyd Pension Fund (the Fund), predominantly on governance and administration matters. This includes reporting annually to stakeholders on whether the Administering Authority (Flintshire County Council) is managing all risks associated with governance, investments, funding, administration and communication.

It should be noted that I am not required to be, nor indeed am I, an expert in all of these areas. In particular, the Fund already has an appointed Actuary to advise on funding matters and an appointed Investment Consultant to advise on investment matters. I therefore use my working knowledge in these areas (and close working relationship with those appointed advisers) to specifically advise on the governance of these areas rather than on these areas themselves.

This annual report sets out my views on the management and administration of the Fund and, in particular, how it has evolved during 2021/22 (April to March), but also touches on some developments that have taken place after March 2022. I also highlight some of the ongoing challenges the Administering Authority will face both in the short term and in the longer term.

Effective Governance

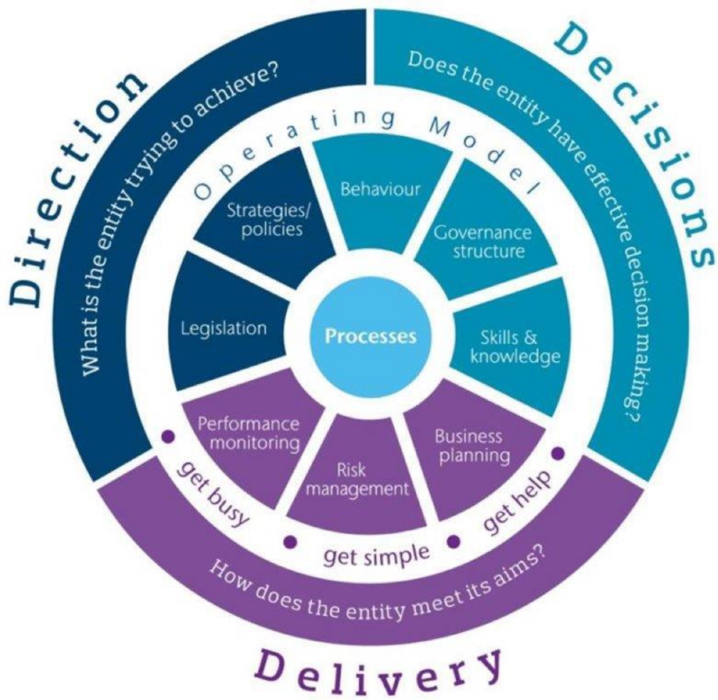
Key Benefits

There are some key benefits from having effective governance in place, including:

- Robust risk management that can assist in avoiding issues arising or at least reducing their impact
- Ensuring resources and time are appropriately focused
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated for the Pension Fund Committee.

The approach I take in advising the Administering Authority is to consider its approach to governance against the Aon governance framework. The Aon governance framework incorporates our beliefs about what it takes to achieve good governance, and considers the following key areas:

- **Direction** – having clear strategies and policies that also meet legislative requirements are fundamental
- **Delivery** – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management, ensure effective and efficient delivery
- **Decisions** – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is critical.



In relation to each of these elements, I consider the key responsibilities for the management of the Fund, in particular:

- the overall **governance** (i.e. management and decision making) of the Fund
- having an appropriate approach to **funding** the liabilities
- the safeguarding and **investment** of assets
- the **administration** of the scheme members' benefits and
- **communications** with the Fund's stakeholders.

Observations

In this section I consider the progress made in the key areas of focus for the Fund, as well as highlighting my thoughts for the future.

Governance

Key Achievements

- Approval of a Fund Cyber Strategy and excellent progress in better understanding of the Fund's cyber resilience in line with the Pension Regulator's expectations.
- Excellent results in a survey to establish the Pension Fund Committee's views on the effectiveness of their meetings and governance arrangements.

The Fund went into 2021/22 in a strong position with governance arrangements that were well established, including stability in the **Pension Fund Committee's membership**, and operating well, despite the challenges faced as a result of the COVID-19 pandemic. Although **Pension Fund Committee meetings** were held virtually throughout the year, based on my observations as well as feedback in a survey of Committee members, they have proven to be effective.

Pension Fund Committee members were supported with a considerable amount of internal training, mainly focused on areas relating to decisions required by the Pension Fund Committee. Comparing the training undertaken over the year with the objectives set out in the **Knowledge and Skills** Policy, I see that in most cases the Fund met the required objective for attendance by members at essential training sessions, however, this was not the case for all of the essential sessions. However, where training was deemed "desirable" or "optional" (which includes attendance at externally hosted training and events), it was found that attendance was lower than the Policy's overall objective with regards to attendance at training sessions over the year.

The **Chief Executive of Flintshire County Council**, Colin Everett, left his position in the autumn of 2021. As the Administrator of the Fund he played an integral role in advising the Committee and as part of the Advisory Panel, particularly in relation to national matters and matters involving wider Council responsibilities. Following discussions with Colin and the new Chief Executive Neal Cockerton, Colin's position on the Advisory Panel was replaced by the Senior Manager – Human Resources and Organisational Development (held by Sharon Carney). There was a long period of succession planning to ensure Colin's departure had no detrimental impact on the Fund's governance.

Turning to the key areas in the Fund's business plan, good progress has been made in all of these areas:

- Significant headway has been made on assessing the Fund's **cyber security resilience**, and embedding cyber risk management into the Fund's ongoing work, which is very much in line with TPR expectations. This work was codified when the Fund put in place a Cyber Strategy which was approved at the March 2022 Committee meeting. The adoption of this strategy was supported by training which was provided for all Committee and Board members in

December 2021. During the year, the Fund developed a data and asset map which sets out the flows of the Fund's data and assets as well as assessing the relative cyber risk associated with these flows. From this mapping, the Fund commenced its programme of carrying out cyber assessments of the organisations associated with the data and asset flows, to better understand any cyber risk. These assessments involve guidance from cyber security experts and the Committee and Board were provided with the findings. The subject was added as a standing item on Pension Fund Committee and Board meetings allowing them to monitor the Fund's progress in this high risk area.

- A Fund specific **Business Continuity** Policy was approved by the Committee in March 2021, and during the last year, the Fund officers have been carrying out a business impact analysis, documenting the current resources required for effective running of the Fund alongside any current business continuity strategies, which is now being used to develop a new business continuity plan.

- The Fund carried out a **survey into the effectiveness of the Pension Fund Committee**. Various key areas were covered including the format of meetings, the format and quality of information provided, knowledge, skills and understanding, administration of committees and the governance structure. I was encouraged to see an overwhelmingly positive response from the members of the Committee across nearly all areas considered by the survey, especially considering the move to virtual meetings as a result of the COVID-19 pandemic. The main area of feedback for improvement was around the format of meetings, with an overall view from the survey was that whilst virtual meetings and training sessions did not have a significant detrimental impact in the running of the Fund, they were less effective overall and more face to face meetings would be preferred. The Fund's Advisory Panel is looking to consider how the results of the survey might affect the way the Committee meetings are held in future, whilst having regard to FCC policy and legal requirements.

- A number of the Fund's **governance related policies** were reviewed during the year, namely the Knowledge and Skills Policy, the Procedure for Recording and Reporting Breaches of the Law, and the Conflicts of Interest Policy. The most notable changes were to the Knowledge and Skills Policy, which was reviewed in light of the changes to the CIPFA Code of Practice and Framework on LGPS Knowledge and Skills. The key here was an increased emphasis on the level of knowledge, skills and training to be had by Pension Committee members, and S151 officers in order to execute their responsibilities adequately. The updated Policy introduces greater clarity on these areas, albeit in the period since I've been involved with the Fund, it has always been extremely proactive in this area. However the ongoing cycle of changes to Committee membership means this is and will continue to be an important area of governance for the Fund.

Resourcing continues to be an area of concern for the Fund and perhaps my biggest concern in relation to the governance of the Fund. They have had a number of vacant positions that have remained vacant for a considerable period of time. Currently the Fund's finance team is worst affected as the team of seven currently has three vacant posts, leading to some significant challenges including the need to make greater use of consultants to ensure that the Fund's objectives and legal responsibilities continue to be met. Recruitment is proving a challenge, particularly given the constraints of local authority pay structures and the limited number of people with the necessary knowledge, and this will be an area of focus going forward.

More generally:

- I feel that the current **governance structure is well established** and is working as intended. The involvement of scheme member and employer representatives on both the Committee and the Board continues to be extremely valuable. The structure has been proven to allow decisions to be made urgently where required and minimises the risk of inadequate governance during challenging times such as with the pandemic, and due to changes in Committee members.

- **Attendance at Committee, Board and Advisory Panel** meetings has been excellent throughout the year, despite the challenges presented by virtual meetings.

- The **Pension Board** continues to play an integral part in the governance of the Fund (recognising my role as Chair of the Board). The Board have produced a separate report (which can be found in the Fund's annual report and accounts) which outlines the work they have undertaken, and which I believe demonstrates the excellent partnership they have with the Committee and officers of the Fund, and the benefits that they bring to the overall management of the Fund.

- I continue to be pleased to see all those involved in the governance of the Fund demonstrating a strong understanding of the potential **conflicts of interest** that can arise and following the requirements of the Fund's Conflicts of Interest Policy. A number of potential conflicts were properly highlighted before or during meetings and they were managed appropriately. Perhaps the most challenging potential conflict of interest the Fund faced (and will continue to face) is in relation to climate change, and particularly the setting of net zero targets or expectations in relation to the Fund divesting from fossil fuels. This matter was tested during the year as motions and questions were received from the participating local authorities. I was pleased to see the appropriate separation of responsibilities between the Fund and employers, with the Pension Fund Committee agreeing a net zero target for the Fund which appeared appropriate (based on the investment consultants' advice). I am not aware of any potential conflict situations that were not notified in accordance with the Fund's Policy.

- The **risk management framework** is embedded in the day to day management of the Fund. Risk management across all areas of Fund responsibilities is considered regularly and forms a standard part of all Committee reports. I believe those involved with the governance of the Fund have a good appreciation of the key risks and are working hard to continuously develop robust internal controls where feasible.
- A wide range of **performance measures** are in place across Fund matters including the areas of administration, investments and funding, and further measures are being developed as the Fund's strategies evolve (such as further communications key performance indicators and measures relating to carbon emissions relating to the Fund's assets). These are integral to the day to day management of the Fund and provide assurance that issues can and will be identified in a timely manner, as well as enabling the Administering Authority to evidence strong or improving performance in many areas.
- **Business planning** continues to be integral to the day to day running of the Fund. The 2021/22 to 2023/24 business plan was approved in March 2021 and was monitored throughout the year. The plan continues to be robust, with very little need to adapt it mid-year, and the officers of the Fund have done a tremendous job in delivering the projects and tasks highlighted within it particularly during the pandemic.

My opinion is that the governance of Clwyd Pension Fund continues to compare extremely well to the Aon Governance Framework. The Council identifies and sets out good clear objectives in all areas, measures itself effectively against these objectives, and has a good attitude to business planning and to risk management. The Council’s governance structure for Fund matters works well, as mentioned above, and the individuals charged with managing the Clwyd Pension Fund are engaged, committed to their roles and well trained.

Looking to the future:

There are several matters relating to governance that I will be particularly interested in during 2022/23, most of which have been included in the Fund's ongoing business plan which was approved in March 2022:

- Following the Welsh local authority elections there has been a significant change in the membership of the **Pension Fund Committee**. There are now five new members in the nine person Committee. Intensive induction training is taking place over the summer and attention will need to be paid to ensure new members are supported as well as possible over their term.
- There were two governance related national initiatives which were delayed again last year. **The Pension Regulator’s (TPR’s) New Single Code** which will replace TPR's Public Service Code of Practice, is expected to come into force in the autumn of 2022, and the **Department for Levelling Up, Housing and Communities (DLUHC’s) Good Governance**

review consultation is also outstanding. These are expected to encompass some overlapping themes, such as increased clarity on the need for high standards of knowledge and skills, and the proper management of potential conflicts of interest. The DLUHC Good Governance consultation is expected to require wider governance compliance reporting and perhaps also an independent audit. When these are issued, I expect the Fund to be well-placed to meet the requirements contained in the new requirements as a result of the hard work carried out by the Administering Authority in the past few years.

- As mentioned previously, work has already commenced on updating the Fund's **business continuity** arrangements and on managing **cybercrime risk**. In particular, the Administering Authority is seeking to ensure that the up to date business continuity plan is finalised over the course of the year as well as ensuring they have embedded the requirements of the cyber strategy.

- There are two **appointments to the Pensions Board** which will require to be considered over the year. I am delighted to note that one of these has already been finalised and that Phil Pumford has been reappointed as representative trade union scheme member to the Pension Board. He was renominated and has kindly agreed to hold the position for another three to five years.

- More generally, the next few years are clearly going to be difficult for LGPS administering authorities given the plethora of changes and initiatives mainly from UK Government. It will be critical that the Administering Authority proactively consider the need for changes to the **existing staffing structure** throughout this period to minimise impact on the services being provided to the Fund's stakeholders, whilst still proactively delivering and meeting expectations on these new initiatives.

- That being said the **recruitment and retention of staff** is already causing problems and a major concern, along with recognising that a number of the team could choose to retire before the end of the decade. This is a fundamental risk to the running of the Fund. The Administering Authority is bound by Flintshire County Council’s policies surrounding recruitment and retention of staff, including levels of pay. I expect that this will be an area of focus going forward, and that the Fund officers and the Committee will work with Flintshire County Council to help manage this risk and find ways to improve recruitment and retention.

Funding and Investments (including accounting and financial management)

Key Achievements

- Excellent progress against responsible investment priorities
- Agreeing a new net-zero target and interim carbon reduction targets
- Strong position shown in the interim funding review

I work closely with both the Actuary and the Investment Consultant to the Fund, and each will produce their own report, so this area of my report focuses on how things are done, rather than the detail of what is done. Key areas in relation to investment and funding this year have included:

- Ongoing work on delivering the Fund's responsible investment priorities, which has included formally requesting establishment of a Sustainable Active Equity fund by Wales Pension Partnership (WPP), a number of local and impact investment opportunities including the groundwork for the first direct investment in clean energy projects in Wales through a Separate Managed Account (again this is a first for the Fund). Good progress is clearly being made in this area.
- Following extensive analysis, a new net-zero target of 2045 was agreed for the Fund's investments as well as specific interim carbon reduction targets, all of which were built into the Investment Strategy Statement. This is a key step in ensuring the Fund is on track to meet the Task Force on Climate-Related Financial Disclosures (TCFD)'s requirements of transparency on the Fund's commitments. Due to the complex nature of this topic, specialist training and briefing sessions were held with the Committee.

The **asset pooling in Wales** arrangements, through Wales Pensions Partnership (WPP) is now well established and assets from the Clwyd Pension Fund have continued to be transitioned across to WPP. Though some assets are yet to be transferred, and indeed there has been an exceptional amount of work taking place in relation to the private market and emerging markets transitions and I was pleased to see the Fund officers being fully involved in the development of these areas given Clwyd Pension Fund has a large proportion of assets in this area. Otherwise, there is a general feeling of business as usual in relation to the Fund's investments with WPP.

Some of the reporting from WPP is still not as customised as is needed; this relates to engagement on environmental, social and governance matters with companies that are being invested in and also stock lending reporting. This is something that has been discussed at the Clwyd Pension Fund Committee and officers are working with WPP to ensure this is resolved.

During the year the Fund were advised of the likely purchase of the Pool's Operator, Link Fund Solutions. This is clearly something that will need to be monitored to understand the implications of this transition to a new owner.

I was also delighted that WPP became a signatory of the UK Stewardship Code 2020 which comprises a set of 12 'apply and explain' principles for asset owners. There is a significant amount of work in meeting the Code's requirements and also then completing the application to become a signatory. My congratulations go to everyone who has and continues to be involved in the work of WPP.

Despite WPP now very much established, the amount of work involved by Fund officers, especially the Head of Clwyd Pension Fund (Philip Latham) and the Deputy Head of Clwyd Pension Fund (Debbie Fielder) continues to be substantial. It is important to ensure that the Fund is appropriate resourced to allow this to continue. I would also highlight the key role of the Chair of the Clwyd Pension Fund Committee (Councillor Ted Palmer) for his attendance and input at the meetings of the WPP Joint Governance Committee over the year.

I am aware that the dedication and commitment of Clwyd Pension Fund officers continues to be integral to the success of WPP as well as ensuring alignment with the Fund's strategies. I am also particularly pleased to see their involvement at a national level on various working groups and initiatives, bringing greater insight and expertise to the Administering Authority.

During the year, the Fund Actuary carried out his **interim funding review** to provide assurance on the funding strategy and assist employers in longer term budget setting, given the triennial actuarial valuation due at 31 March 2022 will likely impact on employer contribution rates. It was pleasing to see the results of the review which suggested a funding level of approximately 103% and also pleasing to note the early engagement with employers.

Looking to the future:

- The key funding project for this year will be the Funding Strategy Statement review and triennial actuarial valuation as at 31 March 2022. I would hope to see a well-managed process with good employer engagement.
- Concurrently with the review of the Funding Strategy Statement, the Fund will also review its Investment Strategy Statement over the coming year. The review will also have regard to DLUHC's recently published Levelling Up agenda and the requirement for LGPS Funds to draft a mandatory plan setting out an ambition as to how they will allocate at least 5% to "new" local investments. Again, from a governance perspective I am pleased to see this is being considered as part of the triennial actuarial valuation, as I recognise that funding and investment are heavily interrelated.

- From an investment perspective, implementing the Fund's Responsible Investment priorities will remain the most critical element of work over the next year. It is a complex area and the options may have a number of risks and opportunities associated with them. We are expecting a consultation from DLUHC during late summer 2022 that will explore how the LGPS should adopt the requirements of The Task Force for Climate-Related Financial Disclosures (TCFD). I look forward to seeing more robust performance measures and reporting to emerge from this area. I am also mindful of the potential for pressure coming from other parties including carbon pressure groups, employers and governments to align the Fund's investment strategy with their views or to invest in particular initiatives. It is critical these matters are well thought through with robust due diligence carried out as decisions are being made and thorough monitoring during and after implementation. The Committee need to ensure they make investment decisions having regard to their fiduciary duty to scheme members and employers.
- As part of the Fund's desire to demonstrate its good governance and stewardship of its assets, the Fund will look to become a signatory to the UK Stewardship Code 2020 by submitting its report by October 2022. I wish the Fund well with their submission.
- It is also worth noting that the WPP's Operator contract with Link Fund Solutions is due to cease in December 2024 (having been extended for two years to then). As such a critical supplier to all Welsh LGPS Funds, this is a matter that will be on my radar for the next few years. I will also continue to monitor the news surrounding the sale of the Operator, and the outcome on the FCA's case against them on the collapse of Woodford Equity Income Fund, which may need to be managed going forward.

Administration and Communications

Key Achievements

- Continued improvement in administration performance demonstrated, despite continuing increases in case numbers
- Member self-service providing increased support for scheme members during the pandemic and major increase in registered scheme members
- i-Connect employer functionality now covers all active employers

Work has continued on the **McCloud remedy programme** undertaken by the Fund's administration team which is a major piece of work for the team and will continue for a number of years. A separate programme team was established at the outset of the programme which has enabled the Administering Authority to continue to make progress in this area with minimal disruption to the ongoing governance of the Fund.

There has been a delay in the DLUHC's consultation response and draft LGPS regulations which are now expected in Autumn 2022 and are due to come into force by 1 October 2023 (noting previously this was "on" 1 April 2023). Employer data to allow recalculation of benefits for the remedy period (1 April 2014 to 31 March 2022) continues to be received with the expectation that this will be complete by the Autumn of 2022 for the vast majority of employers. The communication with employers has been excellent and members have been kept informed of the progress of the remedy on a regular basis. I have been pleased to see a continuation of the regular reporting of the progress on this programme to the Committee, Board and Advisory Panel.

In relation to **day to day workloads and service standards**, 2021/22 was another busy year for the team with over 35,000 administration cases coming into the pensions administration team, an increase of over 6,000 compared to 2020/21. Despite the continuing resourcing challenges, the administration team managed to increase the amount of cases they can complete, remaining on top of this increased workload. I was also delighted to see that the number of outstanding cases had fallen below 5,000 for the first time since the August 2016 which is an outstanding performance.

Key performance indicators are monitored for the main processes including dealing with retirements, quotations of benefits, deaths and providing information to new scheme members. The team has also started tracking 6 new KPIs over 2021/2022. These are not related to legal requirements but will help to ensure the increasing efficiency of case management within the team. The overall percentage of cases completed within the service standard relating to internal timescales for the administration team rose substantially (nearly 8%) compared to the previous year, with 85% of cases completed within the agreed service standard. I was pleased to see that the two measures which are arguably of greater importance also demonstrated significant increases in the number of cases meeting the service standard:

- Service standard relating to legal requirements – 90% (increase of nearly 14% on 2020/21)
- Service standard relating to overall process time – 70% (increase of nearly 9% on 2020/21).

Both these measures have shown fantastic improvement over the last 2 years, with the number of cases meeting the legal timescale improving by nearly 20% over the last two years. This continued improvement is particularly positive and I am delighted by the performance of the team who deserve credit for their achievements.

The **Member Self-Service (MSS) facility** is the Fund's default mode of communication and engagement with Fund members. The number of users of the system has grown to 50% of scheme members as at 30 April 2022, which is a growth of over 13% during the year. As well as providing instant access to certain information and tasks for scheme members, this provides much greater efficiency for the Fund's Administration Team. In the spirit of providing better and more effective member service, the team have been working on improvements to allow scheme members to carry out more processes using the MSS facility, again making it more accessible for those who wish to use it. The officers have worked hard over the year to improve their contact with members who were neither receiving paper communications nor registered on MSS. These exercises have taken place for active and pensioner members of the Fund and have greatly improved the take up of MSS over the year. In total the proportion of the Fund's membership who have positively opted for communications through either MSS or paper communications is around 65% of the membership.

The roll out of **i-Connect**, which is an online administrative module that allows information to be submitted by employers more directly and efficiently into the pension administration system from their own payroll systems, commenced in 2017/18. I am delighted to report that all remaining employers have now signed up on to the live system and data is being submitted in respect of all active members in the Fund, which is excellent news as TPR actively encourages this form of data submission. The Clwyd Pension Fund's Administration Strategy has also been updated to reflect this new medium of transferring employer information.

The Fund relies on employers to deliver their information to the Fund on time so that legal requirements and the Fund's KPIs can be met. Unfortunately, this is not always the case. However, during the year, the Fund officers developed **reporting metrics for employers** so that they are better able to monitor whether notifications of new members to the scheme, leavers and retirements are all being sent by the Fund's employers within agreed timescales. Employers now receive monthly communications showing how they performed in the previous month, with the Fund officers actively engaging with employers to help them meet the requirements. This is an excellent development that allows employers to reflect on their processes around gathering and providing data and make any alterations required to ensure that the Fund receives the data on time and is therefore able to meet the legal and KPI requirements. It also allows the Fund to monitor this on an ongoing basis to quickly identify issues that might be impacting on overall timescales. This is an excellent system set up by the Fund, and as far as I'm aware, very few LGPS Funds carry out monitoring and engagement at this level.

Overall, my general opinion is that the Clwyd Pension Fund compares extremely well to the Aon Governance Framework in the areas of administration and communication. The Administering Authority identifies and sets out clear objectives, has an excellent level of performance measurements in place and demonstrates robust business planning and risk management. The knowledge and understanding of the existing individuals within the Fund is excellent, and the Pension Fund Committee's and Board's engagement on administration is also excellent.

Looking to the future:

- The McCloud remedy is going to remain to be a major programme of work and the greater part of this work will be carried out within the pensions administration team. The significant operational cost of the work, including the additional resources, is likely to only benefit a small proportion of scheme members. Given the magnitude of this work, it will need to be well controlled and resourced, with robust quality checks and efficiencies gained through bulk processing where at all possible. It is putting a strain on employers in providing data which will need to continue to be well managed, recognising the differences in how employers hold and can collate their own data. Further, communications will need to be clear and focused on individual circumstances.

- The staging deadline of the **National Pensions Dashboard** has now been moved to September 2024, delayed by five months from the previous deadline of April 2024 so that funds are provided with more time to implement the McCloud remedy. That being said, the movement to this platform will be another major project requiring significant resource from the Clwyd Pension Fund team in the coming years.
- The Pension Committee signed off on the Fund's new **Communication Strategy** in June 2022. This was a substantial review of the strategy, with emphasis on more accessible and engaging communications. I look forward to seeing the changes that will be made to adhere to the new strategy and the impact of increased active engagement on the Fund's stakeholders as a result.
- The main immediate focus is to ensure timely, accurate and complete submission of data in order to ensure that the **triennial actuarial valuation** as at March 2022 can be completed smoothly, and at the point of writing, this was all going to plan.
- Given these projects, the other area of key focus for the Administration Team is ensuring **day to day business as usual** tasks are not impacted and my previous points about recruitment and retention will be critical to this.

Final Thoughts

I want to say a huge thank you to the Pension Fund Committee, Pension Board, officers and other stakeholders of the Fund for continuing to make me extremely welcome, and for being so open and receptive to my many suggestions. I would also like to recognise the Committee members who we have said goodbye to this year, and also Colin Everett the Chief Executive who left last year, for their time and commitment to service of the Clwyd Pension Fund, its members and employers. I remain extremely impressed and inspired by the hard work and dedication of the Fund's officers, and the commitment and engagement I see from the Pension Fund Committee and Pension Board members who continue to dedicate many hours to Committee / Board business.

Appendix 3 - Pension Board Annual Report

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Introduction

- This is the annual report of the Clwyd Pension Fund Board covering the financial year from 1 April 2021 to 31 March 2022.

Role and Membership of the Clwyd Pension Fund Board

- The Public Service Pensions Act (PSPA) 2013 requires each LGPS Administering Authority to have a local Pension Board consisting of employer and scheme member representatives. Some Pension Boards also have an Independent Chair, which is the case with the Clwyd Pension Fund Board. The Chair is a non-voting role.
- Legislation states that the role of the Pension Board is to assist the Administering Authority in securing compliance with regulations and with requirements imposed by the Pensions Regulator, as well as assisting in ensuring effective and efficient governance and administration of the Scheme. This has generally been interpreted as the Pension Board having an oversight role but not a decision-making role. For the Clwyd Pension Fund (the Fund), we have very much embraced this role as being about partnership. We work closely with the Pension Fund Committee (the decision-making committee for the Fund) and officers of the Fund in the hope that the questions we ask, and the challenge we sometimes provide, will assist in ensuring that the Fund is managed in the best interests of its scheme members and employers.
- Board members undertake these roles for a period of between three and five years, although we may be reappointed for future terms if we are selected again through the recruitment process.

Membership, meetings, training and attendance

Our Board membership during 2021/22 is shown in the table below.

During 2021/22 we held three Pension Board meetings (in June 2021, September 2021 and February 2022), all of which were virtual due to restrictions put in place as a result of the pandemic. Attendance at the Board meetings during 2021/22 was as follows:

		June 2021	September 2021	February 2022
Mr Phil Pumford	Member Representative	√		√
Mrs Elaine Williams	Member Representative	√	√	√
Mr Steve Jackson	Employer Representative	√	√	√
Mr Steve Gadd	Employer Representative	√	√	√
Mrs Karen McWilliam	Independent Chair	√	√	√

The meetings were also attended by the Board Secretary (the Head of Clwyd Pension Fund) and Pension Fund Officers who support the Pension Board, with the exception of the September 2021 meeting when the Board Secretary sent their apologies.

As members of the Pension Board, we have all committed to meeting the requirements of the Clwyd Pension Fund's Knowledge and Skills Policy, which also ensures we meet the legal requirement to have the right level of knowledge and skills to carry out our Pension Board roles. We attended a range of events and training in 2021/22 to complement the induction training we undertake on appointment. In addition, we are invited to attend the Pension Fund Committee meetings and their training events.

The Fund specifies the number of Board members who are required to attend essential training sessions. The Knowledge and Skills policy currently states that 75% of Board members must attend each Hot Topic training session, as these are classed as essential training. We are pleased to report that we have exceeded that number at all essential training sessions since the policy was formally agreed by the Pension Fund Committee in September 2021.

Our full record of attendance at those meetings, hot topic training and other events is shown below:

Event	Steve Jackson	Phil Pumford	Elaine Williams	Steve Gadd	Independent Chair
Committee Meetings					
June 2021		✓	✓		✓
September 2021			✓		✓
November 2021		✓			✓
February 2022		✓	✓		✓
March 2022		✓	✓		✓
Other Meetings					
Annual Joint Consultative Meeting	✓	✓			✓
Hot Topic (essential training)					
Funding / Flightpath I			✓		✓
Fossil Fuel and Divestment		✓	✓	✓	✓
RI Roadmap			✓	✓	✓
New TPR Code / Pension Scams (Board only)	✓	✓	✓	✓	✓
Funding / Flightpath 2			✓	✓	
Conflicts of Interest	✓	✓	✓	✓	✓
Cyber Security	✓	✓	✓	✓	✓
Tax / Annual Allowance	✓	✓	✓	✓	✓

Event	Steve Jackson	Phil Pumford	Elaine Williams	Steve Gadd	Independent Chair
General Awareness					
CIPFA Annual LPB Conference		✓			
LGC Conference March 2022	✓				
Induction					
Investment Practice	n/a	n/a	✓	✓	n/a
Administration	n/a	n/a	n/a	✓	n/a
Accounting Audit & Procurement	n/a	n/a	n/a	✓	n/a
Communications	n/a	n/a	n/a	✓	n/a
Other Wales Pension Partnership Training					
WPP Training Private Markets & Fund Wrappers			✓		
WPP Training RI benchmarks and Reporting			✓		
WPP Performance reporting / ACS Roles and Responsibilities			✓		
WPP Pools / Collaboration			✓		
WPP Good Governance / Cost Transparency			✓		✓

What has the Pension Board done during 2021/22?

Our meetings include several standing items, including:

- latest Pension Fund Committee papers,
- reviewing the administration of the Fund including performance against Key Performance Indicators (KPIs) and data improvement activity,
- reviewing the Fund's risk register,
- receiving updates on all compliments and complaints, and
- monitoring of our allocated budget.

Key governance matters that we discussed during the year included:

- Continual monitoring of the impact of the **Covid 19 pandemic** on the Fund. In particular, we noted that meetings and day-to-day interactions still largely continued to take place virtually during 2021/22. Pension Board business including some training courses and conferences were increasingly conducted via a "hybrid" format, where some individuals meet in person while those who choose to, are able to attend virtually. The impact of sickness was minimal and short-term in most teams with no or little effect on services.
- Regular updates on **recruitment and retention** within the teams. Unfortunately, this is now an area of concern with some resignations, and difficulties in recruiting to both existing posts and new posts that have been recently created.
- Management of **cybercrime risk** for the Fund on which we continue to look for assurance given the continually changing environment. This is currently a standard items at all meetings and we have received updates on the progress on the delivery of the Fund's Cyber Security Strategy including supplier assessments and data and asset mapping. At the September meeting, we received a presentation from a cyber specialist on the independent assessment of the Fund's administration system provider.
- The development of the Fund's new **business continuity** plan which will be finalised during 2022/23, including the detailed work the officers of the Fund have been carrying out in determining dependencies for their critical processes.
- An **effectiveness survey** which members of the Pension Fund Committee were asked to complete earlier in the year. The results, which were extremely positive, were discussed with the Board. It was encouraging to know that the Committee value the Board's input in light of our advisory role.
- The progress of **asset pooling** through the Wales Pensions Partnership (WPP). Our focus remains on the governance of WPP and during the year we have closely monitored activity

in this area including the development of key policies and the WPP's Business Plan. There is a potential change in ownership for the Operator, and there is an ongoing investigation by the FCA, both of which we are continuing to monitor. The Chair of the Board continues to attend regular asset pooling meetings with the other Welsh Chairs.

- The Fund's compliance with **The Pension Regulator's Code of Practice** for Public Service Pension Schemes. The Fund is fully compliant in most areas of the Code and the small number of areas that require attention are being worked on in 2022/23. We also received a presentation on The Pension Regulator's New Single Code which is due to come into force later in 2022.
- The Fund's new **Knowledge and Skills Policy and Conflicts of Interest Policy** which we adopted in September. As a Board we are committed to meeting the requirements of these policies.

Key administration matters that we discussed during the year included:

- The consultation on the remedy following the **McCloud judgemen**t, which was finalised in May, with legislation expected to be in force on 1 October 2023. The Board received updates on the Fund's programme of work at each meeting. In addition, all Board members are part of the McCloud Steering Group which has oversight of all areas relating to McCloud. We have been pleased with the progress made on the McCloud remedy programme this year.
- **Pension scams** which are a big concern throughout the pensions industry. We received a presentation on these and the Pensions Administration Manager was reassuring about how the risk of scams is reduced and we were pleased that no scams took place for the Fund. This is an area we are continuing to monitor.
- **Ongoing issues with Prudential** as the Fund's external AVC provider, which we have been tracking. We are disappointed that the members' experience of the Fund is being negatively affected by an external provider but are very appreciative of the work done by the Pensions Administration Manager in escalating the issues within Prudential, and are pleased to see the services are now improving.
- The **Data Improvement Plan** on which we remain engaged with Pension Fund Officers on. We were pleased to note that the common and scheme specific data scores had both slightly improved but recognise that there will be a point at which the time taken to improve the data further will exceed the benefits of improving the data. We were very pleased to see that the Fund has invested in tools to allow officers to monitor the data quality more frequently than the previous annual exercise. It is also clear to see that having all employers electronically uploading their pension data monthly has resulted in data being much more up to date and of a good quality.

- **Member cases received, completed and outstanding**, the updates on which painted a positive picture, particularly given the challenges of the pandemic. It was extremely pleasing to see that the total outstanding cases dropped to the lowest level since monitoring began. That being said, we recognised that there were some **key performance indicator** areas where targets were not being met on a consistent basis much of which was due to ongoing recruitment and training. Furthermore, the new process for monitoring of **employer service level standards** was shared with us. We consider this to be extremely useful in ensuring the Fund meets legal deadlines for delivering to scheme members and we will receive regular updates on this going forward, including how the Fund is engaging with employers who are not meeting the agreed timescales.

- How the **Member Self-Service** facility is being utilised. During the year there was a significant increase in members registering for the service due publicity run by the Fund. The Board are very supportive of scheme members being able to access information instantly through this facility.

We continued to monitor other **topical developments** and have taken a close interest in a number of areas during the year including a slight increase in the number of breaches of the law arising from specific employers, the pensions dashboard project, and implementation of responsible investment and climate change strategies.

The Pension Board's budget and final spend for 2021/22 are summarised below:

Item	Budget 2021/22	Actual 2021/22	Variance
	£	£	£
Allowances and Expenses	2,034	1,090	(944)
Training	19,634	40,594	20,960
Advisor Fees	64,915	55,215	(9,700)
Other Costs	4,700	4,360	(340)
Total	**91,283**	**101,259**	**9,976**

What will the Pension Board do in the future (in particular in 2022/23)?

We have a number of items on our forward plan for 2022/23, although the exact agenda and timescales will necessarily remain flexible to consider any further matters that may arise. The following are already on our work plan for the forthcoming year:

- A consultation on the Task Force on Climate-Related Financial Disclosures that is expected to take place in autumn 2022 and how the Fund is implementing this.
- Ensuring that the Fund is compliant with the TPR's Single Code of Practice that that is expected to come into force during the year.
- The governance of the 2022 actuarial valuation including communications with the Fund's employers.
- The management of the Fund's cashflows in light of potential reductions in contributions required from employers arising from the completion of the 2022 Valuation.
- Review of audit reports and implementation of their recommendations.
- Considering the results of a survey of Pension Board members to assess the effectiveness of the Fund's governance arrangements.
- Ensuring the new members of the Pension Fund Committee are offered and undertake appropriate training.
- Ongoing further consideration of several of the areas noted above, including:
    - The McCloud remedy programme
    - Engagement with employers failing to meet service standards
    - The national pensions dashboard
    - Business continuity
    - Cyber security and the resilience of the Fund's systems
    - The governance of asset pooling
    - Continuous monitoring of both the administration team and finance team resources.

A budget for 2022/23 has been agreed as follows:

Item	Budget 2022/23 £
Allowances and Expenses	2,192
Training	33,148
Advisor Fees	72,313
Other Costs	4,700
Total	**112,353**

Conclusion and final comments

In our view 2021/22 has been a successful and productive year for the Board, and we are pleased with the work we have completed, which has covered a wide range of Fund management areas. We continue to have an excellent working relationship with the Pension Fund Committee and the Fund's officers and are grateful for the way they have all embraced our involvement and for their openness in their interaction with us. We would like to thank the Committee for welcoming us to their meetings, which helps us put the challenges and successes of the Fund much more easily into context. We look forward to continuing that relationship.

Phil Pumford, Member Representative

Elaine Williams, Member Representative

Steve Jackson, Employer Representative

Steve Gadd, Employer Representative

Karen McWilliam, Independent Chair

Clwyd Pension Fund Board

E-mail address – PensionBoard@flintshire.gov.uk

Appendix 4 - Administration Report

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Introduction

This section of the report describes the way in which the Fund delivers its administration related services to members and employers. It identifies current and potential future challenges, and explains the way in which the Administration Team is meeting them. The report also includes Key Performance Indicator information and some information on the membership of the Scheme.

The work of the Administration Team is driven by the Fund's Administration and Communications Strategies.

Our Pensions Administration Strategy ensures that both the Fund and the employers are fully aware of their responsibilities under the Scheme and outlines the performance standards they are expected to adhere to, to ensure the delivery of a high-quality, timely and professional administration service.

Our Communication Strategy has been updated in June 2022. The Strategy outlines how we will communicate with scheme members and prospective members, scheme employers, the Clwyd Pension Fund Committee, the Clwyd Pension Fund Board, Clwyd Pension Fund staff and other interested organisations.

The chosen methods of communication are monitored and reviewed to ensure they are effective. The main means of communication with the above stakeholders are outlined in the Communications Strategy and the new Strategy includes a greater focus on ensuring communications are more relevant to the audience and the use of technology to provide quicker and more effective communication. The Communication Strategy and Pensions Administration Strategy are available to view on the Fund's website.

https://mss.clwydpensionfund.org.uk/home/investments-and-governance/strategies-and-policies/

How our service is delivered

The Clwyd Pension Fund's day to day administration service is provided by the Pension Administration Team which consists of a total of 47 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager.

It is split between:

- an Operational Team
- a Technical and Payroll Team
- a Regulations and Communications Team
- an Employer Liaison Team (ELT)
- a McCloud Team (temporary project team)

It is separate from the Finance Team which manages the Fund's investment portfolio, collects pension contributions from employers and maintains the Fund's accounts.

The Operational Team delivers a pensions service for over 50,000 scheme members. This includes the calculation of various benefits, transfers in and out with other pension arrangements, refunds of contributions and maintenance of individual scheme member records. The Team not only calculate pensions for members but also survivor benefits to spouses, civil and cohabiting partners and children.

The Technical Team implements and maintains the pension software systems (including the on-line facilities of Member Self-Service, and I-Connect for employer data uploads), collects and reconciles member data from all Fund employers and provides a pensioner payroll service for over 15,000 pensioners and dependents paying more than £6 million per month.

The ELT provides assistance to Fund employers in providing accurate and complete notifications to the Fund, and the Regulations and Communications Team provides guidance on regulatory matters to all stakeholders and a communication service for Scheme members and employers.

COVID-19 Update

The coronavirus pandemic forced staff members to work from home from March 2020 and to make changes to processes ensuring service delivery was maintained. During 2021/2022 the impact of Covid-19 from a stakeholder experience continued to be minimal. The main changes that were put in place at the beginning of the pandemic have been in relation to incoming/outgoing post where processes were adapted to ensure continuity in this area. Staff members have continued to work from home during the last year remaining contactable with interviews, training sessions and meetings taking place via virtual methods. Productivity levels have remained consistent and, in some areas, improved. Regular meetings have taken place to give staff members the opportunity to catch up with each other and a continued focus for the management team is ensuring well-being of all staff members.

Summary of Activity

In addition to this day-to-day work during 2021/2022 the Pension Administration Team has been managing other major pieces of work and projects as described below.

Data Quality

Data quality requirements are embedded in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations in 2014 and The Pensions Regulator (TPR) has oversight of this area within the LGPS. The Administration Team collectively developed a data improvement plan for 2021/22 onwards in readiness for the annual review of common and scheme specific data which is reported to TPR. The results of the time and effort that is dedicated to ensuring good data quality has led to improved common and scheme specific data scores over recent years (see table below).

	Common Data %*	**Scheme Specific Data %***
2021 / 2022	98	98
2020 / 2021	97.7	97.3
2019 / 2020	97.4	97.2
2018 / 2019	96.8	92.7
2017 / 2018	92.7	68.2

*The score is the % of data that has met specific targets set by TPR in relation to Common Data (NINO, Name, Address etc.) and Scheme Specific Data (Member benefits, Member details, Her Majesty's Revenue and Customs (HMRC) details etc.). The score is reported back to TPR and a data improvement plan is put in place to improve scores where it is relevant to do so.

Key Performance Indicator Monitoring

The Fund measures and reports monthly performance in order to ensure timescales are being met, as set out in the Fund's Administration Strategy. The Fund currently measures 13 categories of workflow, separately considering timescales in relation to legal requirements (where appropriate), the overall member experience and the Fund's internal target.

The new employer reporting functionality that was developed last year has facilitated the identification of employers who have or have not met their Service Level Agreement timescales. This measure has helped the Fund and employers understand what is being achieved and also where improvements are required.

i-Connect

In 2021/22 the Fund continued to roll-out, to its employers, the electronic data system i-Connect. i-Connect ensures timely and more accurate data is provided to the Fund and replaces the requirement for employers to submit a year end return. The functionality includes the notification of new starters, leavers, name changes, address changes and job changes. The system allows member details extracted from their employer's payroll systems to be directly uploaded to the Funds pension's administration system on a monthly basis. We have 52 out of 54 employers submitting data related to active members using i-connect which is 99% of membership (the two employers not using i-Connect are transitioning to a new payroll provider but are committed to on-board when appropriate). The Fund provides training to all new employers to ensure they supply their data through i-Connect, and the use of the functionality is now a requirement as part of the Fund's Administration Strategy.

Clwyd Pension Fund Website

The Clwyd Pension Fund website contains information about the Fund and the Scheme for both current and prospective members along with information for Fund Employers. The website address is www.mss.clwydpensionfund.org.uk

Within the website (which includes access to the Member Self Service portal) there are multiple sections to help users navigate their way around and to find the information which they are looking for. Users are able to download Scheme literature and forms from the website. In the last 12 months, work has been done to ensure that all guides and forms have the same brand and style. The forms have also been made more user friendly by making them editable. This allows members to complete the forms online and return them to us electronically, instead of having to print out the form to complete it and return.

All the Fund's policies and strategies as well as information on the investments of the Fund are also available.

Due to website accessibility regulations, public sector websites are required to meet national accessibility standards and to publish an accessibility statement on their websites. To meet the government's requirements, websites must achieve level A of the Web Content Accessibility Guidelines (WCAG 2.1). This means that websites should be accessible to people with impairments to their vision, hearing, mobility and thinking and understanding. Accessibility should also be considered for those visiting websites via a tablet, mobile phone or other device. It is anticipated that these regulations will be updated to WCAG 2.2 in September 2022.

To ensure our compliance with WCAG, the Fund continues to work with a company who provides reporting software which allows each page on the Fund's website to be automatically analysed on a weekly basis. This weekly report shows our scores in relation to certain areas within website accessibility:

- Digital Certainty Index

- Quality Assurance
- Accessibility
- Search Engine Optimisation

The reports allow us to see where our scores can be improved and where areas of the website need to be amended or fixed in order to be compliant.

The table below shows 31 March 2022 scores compared to 31 March 2021 scores.

	31/03/2021	31/03/2022
Digital Certainty Index	92.1%	93.18%
Quality Assurance	98.0%	98.88%
Accessibility	97.3%	95.67%
Search Engine Optimisation	81.0%	84.98%

Member 1-2-1 Sessions

Member 1-2-1 sessions were held virtually again in 2021/2022. These were a mixture of video calls and telephone calls. The sessions ran from October 2021 through to February 2022. The Communications Team met with members covering a mixture of active and deferred members. Below are some statistics on the 1-2-1 sessions:

Number of 1-2-1 dates offered	**39**
Number of 1-2-1- appointments offered (TOTAL)	**269**
No of 1-2-1 appointments taken	**96**
Take up rate (%)	**35.69%**
Members attending their scheduled appointment	**89**
Members not attending their scheduled appointment	**7**

Moving forward, the Clwyd Pension Fund will hold 1-2-1 appointments as and when requested by the member as opposed to designating a proportion of the year specifically for 1-2-1 sessions.

Employer Liaison Team (ELT) Services

The ELT continues to be available to Fund Employers who may require assistance in order to meet their employer obligations for providing information to the Fund, both in relation to day to day notifications and any project work required, for example, as a result of regulatory or system changes.

During the year, the ELT has worked closely with a number of the Fund's employers to successfully collate, validate and then upload data on a monthly basis through i-Connect. This monthly process relates to data for more than 10,000 scheme members.

The ELT has also assisted its employers in several other areas during 2021/2022. This included ongoing data cleansing projects and additional support during a period of staff change with the supply of additional pension information on behalf of an employer.

The current ELT employers have each enlisted the assistance of the team in order to meet their obligations required by the McCloud remedy (considered further in the next section). The ELT has assisted with the design of new payroll system reports for each employer to extract the required data and then collating, formatting and validating the data to meet the Fund's requirements.

Scheme changes and national developments affecting administration and communications

McCloud Remedy Case

The Court of Appeal ruling in the McCloud court case determined that the protections given to older members on the introduction of the new CARE schemes for Firefighters and Judges in April 2015 were unlawful age discrimination. This case impacts other public service pension schemes including the LGPS where the new CARE scheme from April 2014 included a statutory underpin for older members. The Ministry for Housing Communities and Local Government (MHCLG) (now DLUHC) issued a consultation in July 2020 setting out its proposals for implementing the McCloud judgement in the LGPS. This focused on remedies which will result in changes to scheme benefits some of which will be retrospective. We expect a full response to the consultation in the second half of 2022 and final changes to the scheme rules are expected to come into effect on 1 October 2023.

From an administrative perspective, the impact of the court case is expected to result in a change to how benefits are calculated for a large number of scheme members including some members who have left since 1 April 2014. The change involves providing younger members with protection equal to the underpin protection already given to older members. Despite this protection impacting on a lot of members, most are unlikely to see an increase to their pension. Regardless this is likely to significantly impact on administration processes and systems as well as requiring a robust communication exercise with employers and scheme members. The Fund has established a McCloud programme to implement the remedy for Clwyd Pension Fund. The main focus during 2021/2022 was collecting historical data from employers relating to part-time hours worked and service breaks for scheme members so benefits can be recalculated when the scheme rules are amended. .

National Pensions Dashboard

The Pensions Dashboard is a Government initiative first announced in the Budget 2016. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A consultation was undertaken by Government in early 2019 which sought views on the potential phasing of the introduction of the pensions dashboards as well as how the architecture, funding and governance arrangements would work. The Pension Schemes Act 2021 provides the legal framework for implementing the dashboard. A consultation on regulations closed in March 2022 and these regulations will include more detail on the requirements to participate in the Pension Dashboard for schemes. The consultation response has clarified that public sector pension schemes will be expected to initially onboard by 30 September 2024 with full data having to be provided by 30 April 2025. During 2021/22 the key focus in this area was understanding the requirements and feeding into consultations. The Pensions Administration Manager is participating in a PLSA working group on the development of the Dashboard. The Clwyd Pension Fund has also volunteered to be part of the testing of the pension dashboard enhancements being integrated into the administration software. The main work for onboarding to the Dashboard will commence during the second half of 2022/2023.

Other Expected National Changes

There are a number of further changes that are expected in due course but the final details of the impact of them and the timescales are not yet available. These include the following changes that are detailed below. These explanations are based on the situation in August 2022.

Cost Management

Public Sector Pension Schemes (including the LGPS) were designed to ensure sustainability for 25 years. The design included a cost management mechanism and at the 2016 valuations the lower threshold within that mechanism (i.e. the cost floor) was deemed to be breached which suggested member benefits would need to increase or their contributions reduce. Following the McCloud judgement, Government announced that any additional McCloud costs would fall to be deemed “member costs” within the cost management mechanism. In June 2022 they confirmed that there will be no changes to member benefits or contributions on account of the 2016 exercise. However the Trades Unions have been granted permission for a Judicial Review of the decision to allocate McCloud costs to members and the results of the Judicial Review could change the outcome of the 2016 cost management process.

In addition the results of the 2020 cost management process are also outstanding albeit the cost management mechanisms have been updated from the 2016 process.

From an administrative perspective, should there be changes to member benefits and/or contributions as a result of the 2016 or 2020 cost management process, this could have a significant impact on administration processes and systems as well as requiring a robust communication exercise with employers and scheme members.

Exit Payment Reform

With effect from 4 November 2020 a £95k cap on exit payments made by public sector employers came into effect, this included the cost of early payment of LGPS pensions. However, in the face of legal challenge, HMT issued a direction to disapply the £95k exit cap with effect from 12 February 2021. Changes are still due to be introduced which may include separate rules for the LGPS. However Welsh Government might implement a different approach to meeting the exit cap requirements which would then impact on some of the employers in the Clwyd Pension Fund.

Increase in minimum retirement age

The Government has also announced that the earliest age a pension can be taken (other than in some cases of ill-health) will be increased from 55 to 57 in April 2028. Protections to retain the minimum pension age of age 55 may be available for those who were scheme members in on or before 3 November 2021, but these would need to be introduced into the LGPS Regulations.

2021/2022 key performance and other information

Member Self-Service (MSS)

MSS allows scheme members to log into a secure web area to view the information which is held on their pension account.

MSS enables our members to:

- update their personal details
- run estimates for retirement using their chosen retirement dates
- amend their death grant beneficiaries
- request retirement packs for deferred members who want to start receiving their pension
- view all member specific documents (e.g. annual benefit statements) and
- upload completed forms for Clwyd Pension Fund to process.

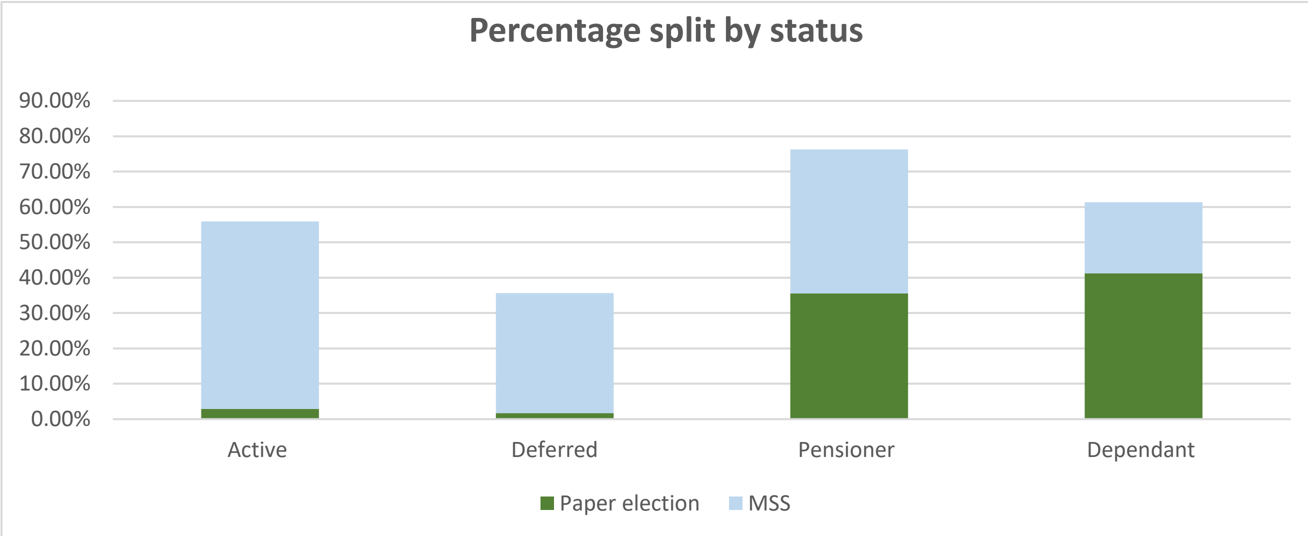
Members who use MSS receive their correspondence electronically, automatically uploaded to their account. They are notified by email each time information is uploaded.

As at 31st March 2022, 48.40% of Clwyd Pension Fund's membership had registered for MSS. To compare, as at 31st March 2021, 36.13% of Clwyd Pension Fund's membership had registered. This means that the registration uptake has increased by 12.27% during this period.

The Clwyd Pension Fund has recently started to record statistics for those members who have elected to receive paper correspondence. Early indications show that approximately 15% of our membership has currently opted for paper communications, rather than using MSS.

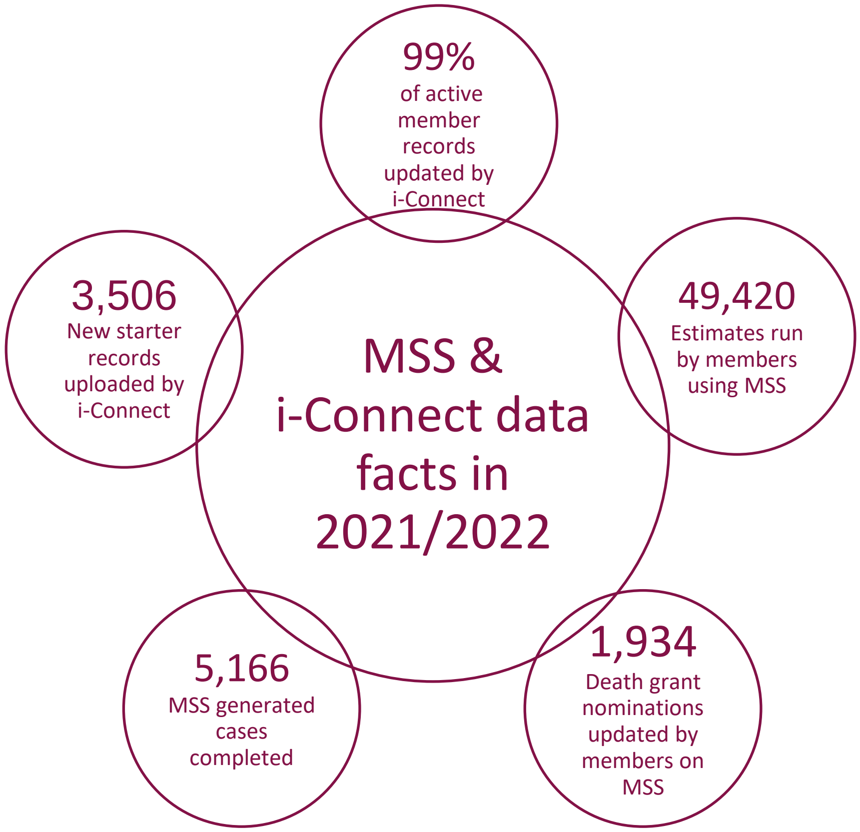
The ratio of paper versus MSS communication preference can be broken down into the different membership status types as seen in the graph below: MSS continues to be an effective method of communication, allowing Clwyd Pension Fund to upload documents such as retirement packs and estimates to members' MSS accounts. This means that members receive their correspondence from us more quickly and securely compared to having it posted to them.

Members are also able to upload completed forms to their MSS accounts for the Fund to then progress payment of their benefits quicker.



On-going improvements to the functionality and promotion of MSS will continue during the next 12 months.

MSS and I-Connect Statistics



Scheme Membership details

This section includes a range of information relating to the numbers of staff, employers and scheme members during 2021/2022.

Full time equivalent staff in the Pension Administration Team	Total Fund members	Ratio of staff to members of Fund	Average cases completed per member of staff
33.1	49,495	1:1,495	1,001

Summary of Employers as at 31st March 2022

Employers	Active	Ceased	Total
Scheduled bodies	35	20	55
Admitted bodies	19	19	38
Total	54*	39	93

*excluding Councillors

2021/2022 New Pensioners

Retirement Type	Number of Retirements
Ill Health	44
Early	406
Normal Retirement Age (NRA)	75
Late	143
Redundancy/Efficiency	25
Flexible	17
Trivial Commutation	79
Total	**789**

Member Trends:

Year	Contributors	Deferred (Including Undecided & Frozen refunds)	Pensioners	Dependent Pensioners	No. of Redundancy & Efficiency Enhanced Benefits	No. of Ill Health Enhanced Benefits - tier 1 only
2018/19	16,528	18,573	11,249	1,732	64	15
2019/20	17,211	17,745	12,751	1,988	54	18
2020/21	17,542	17,275	12,996	2,041	43	21
2021/22	17,073	17,888	12,613	1,921	25	34

Analysis of Pension Overpayments and Write Offs

The Fund has a policy in which it does not seek to recover any overpayments of pensioner payroll payments which are under £100. Details of those are shown below. Every effort is made to recover any payroll overpayments above £100. In some circumstances these may be written off with agreement from the Section 151 Officer.

Overpayments relating to the GMP reconciliation exercise are not included in these figures.

	2021/22		2020/21		2019/20		2018/19		2017/18	
	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases
Amounts under £100	£6,516	166	£6,348	151	£4,435	129	£6,270	154	£6,164	150
Overpayments Recovered	£38,056	92	£26,716	92	£29,277	76	£39,685	90	£51,265	102
Overpayments Written Off	£0	0	£498	2	£0	0	£2,742	4	£990	3

Key Performance Indicators (KPI)

The Fund measures a number of administration tasks against agreed service standards. These KPIs help ensure we are providing information to our scheme members in a timely manner. Previously the fund reported on seven measures, however, the Fund has developed further measurements of service provision in order to increase the transparency of performance and are now reporting on 13 measures. The KPI requirements can be found in the Fund's Administration Strategy and include targets of 90% of the agreed service standard for the Clwyd Pension Fund administration element and 100% for the legal requirement element.

The new measures in the table below are marked with a *, please note not all of these measures have a legal requirement and therefore will have 'N/A' in the legal requirement fields.

Process	No. of cases completed cases	Legal Requirement	% of cases completed within target (Legal)	CPF Administration element target	% of cases completed within target (CPF)
To send a Notification of Joining the LGPS to a scheme member	4,072	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	84%	30 working days from receipt of all information	99%
To inform members who leave the scheme of their leaver rights and options	2,030	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	99%	15 working days from receipt of all information	98%
Obtain transfer details for transfer in, and calculate and provide quotation to member	309	2 months from the date of request	78%	20 working days from receipt of all information	69%
Provide details of transfer value for transfer out, on request	456	3 months from date of request (CETV estimate)	98%	20 working days from receipt of all information	81%
Notification of amount of retirement benefits	1,534	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	86%	10 working days from receipt of all information	90%

Providing quotations on request for retirements	883	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	99%	15 working days from receipt of all information	89%
Calculate and notify dependant(s) of amount of death benefits	207	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	87%	10 working days from receipt of all information	81%
*Calculate and Notify member of CETV for Divorce/Dissolution Quote	103	3 months from the date of request	99%	20 working days from receipt of all information	95%
*Calculate and Notify members of Actual Divorce Share	5	4 months from the date of the pension sharing order, or the date where all sufficient information is received to implement the order	60%	15 working days from receipt of all information	60%
*Calculate and pay a Refund of contributions	350	N/A		10 working days from receipt of all information	61%
*Calculate and Pay retirement lump sum	1,062	N/A		15 working days from receipt of all information	96%

*Calculate and Notify member of Deferred Benefits	1,821	N/A		30 working days from receipt of all information	35%
*Initial letter acknowledging death of member	442	N/A		3 working days from receipt of all information	78%

Other performance information

The total number of cases completed annually continues to increase. Despite that, there has still been a positive effect on the performance levels achieved across all areas. Additional resource and developments in technology have contributed towards this success and will continue to be monitored to ensure service standards do not decrease. In order to satisfy legal requirements the KPIs noted above are measured at a specific point within the case. These numbers will, therefore, not match the completed cases shown below which also include other areas of work.

Completed Cases 2021/2022

Case Type	Cases
New Starters	3,506
Address changes (including via MSS)	3,535
Defers	1,830
Refunds	709
Retirements (all types)	1,437
Estimates (all types)	883
Deaths (deferred, active and pensioners)	530
Transfers In	300
Transfers Out	404
Divorce Quote	106
Divorce Share	5
Aggregation	2,111

2020/21

Total cases completed

29,854

2021/22

Total cases completed

31,152

Case Movement

	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Start total	5,127	5,074	5,005	4,905	4,962	5,074	5,708	6,197	5,463	5,135	4,835	4,985
Completed	2,306	2,457	2,578	2,165	2,218	2,539	2,974	3,647	2,566	3,057	3,344	5,024
Received	2,295	2,411	2,493	2,280	2,418	3,253	3,539	2,937	2,291	2,760	3,512	4,961
Deleted	42	23	17	58	88	80	76	23	53	3	18	13
Remaining	5,074	5,005	4,905	4,962	5,074	5,708	6,197	5,463	5,135	4,835	4,985	4,909

Value for Money Statement

The Fund measures Value for Money by achieving its objectives set out in both the Administration Strategy and the Communication Strategy and particularly the following objectives:

- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records

- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so

- Look for efficiencies and environmentally responsible ways in delivering communications through greater use of technology and partnership working

To successfully deliver these objectives there is a robust Business Plan and Data Improvement Plan in place, risk management is integrated into our day-to-day business and we continually measure success against these objectives in various ways such as through our KPIs, satisfaction surveys and our Breaches Register. Progress updates on each of these are regularly reported to the Committee and the Board.

Some of the key measures to demonstrate Value for Money are as follows:

- The quality of data is fundamental to both the valuation of the fund's liabilities and how this is subsequently reported in the fund's accounts. As mentioned earlier, our common and scheme specific data quality scores are 97.7% and 97.3% respectively and these have significantly improved in recent years evidencing that data is now of a high quality.

- We aim for 5% per year increases in the proportion of scheme members registered on Member Self-Service, which directly results in greater efficiencies. We achieved an increase of 12.27% from March 2021 to March 2022.

- We strive to use digital communications as a default in all situations unless there are valid reasons not to do for efficiency or effectiveness reasons.

- We regularly review our progress against a wide range of KPIs (including legal timescales, overall process timescales and internal Fund turnaround times), workload case numbers (received, completed and outstanding) and our business plan requirements to ensure our resources are appropriate to meet our objectives.

- We aim for the cost per member to not be in upper or lower quartiles when benchmarked against all LGPS Funds using national data. The latest measure confirms our administration cost per member (CIPFA measure) to be £36.35 and this represents a position within the middle quartiles of the Funds included in the comparison. With regard to overall costs per member across administration, oversight and governance, the latest measure confirmed this to be £88.44 per member. This represents a position within the upper quartile of the Funds included in the comparison.

Furthermore, in 2021/22 the administration of the Fund was achieved within the agreed budget.

Complaints Procedure

The Fund's complaints procedure is officially known as the Internal Dispute Resolution Procedure (IDRP).

Usually, before IDRP is instigated, an 'informal' complaint is raised by a member and the Pensions Administration Manager or Principal Pensions Officers will attempt to resolve the complaint and confirm this in writing where possible. If the complaint is against an employer decision, it is the employer's responsibility to attempt to resolve this complaint. If the member is dissatisfied with the response, they may appeal. IDRP has a two stage process under LGPS regulations.

Written appeal applications must be made using the Fund's official IDRP forms and must be returned to the Fund within six months of the date of the decision that the member is appealing against.

Stage One of the appeal's process requires the Fund's 'nominated person' to investigate the complaint. For Stage One, this nominated person is the Business Development Manager for West Yorkshire Pension Fund. He reviews the dispute and makes a determination as to whether the decision reached was made in line with the Scheme regulations. Should the member remain dissatisfied with the outcome they can make an application under Stage Two which can be forwarded to the Fund. Stage Two appeals are heard by the Monitoring Officer of Flintshire County Council.

If still dissatisfied, members may take their dispute to the new MoneyHelper service and then onto the Pensions Ombudsman. The table below summarises the IDRP requests the Fund received in 2021/2022 and their outcomes:

2021/2022	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	7	0	3	4
Stage 1 - Against Administering Authority	0	0	0	0
Stage 2 - Against Employers	0	0	0	0
Stage 2 - Against Administering Authority	0	0	0	0

Appeal Contact details:	Mrs Karen Williams Pensions Administration Manager, Clwyd Pension Fund, County Hall, Mold, CH7 6NA

More information about the appeal process can be found in our Internal Dispute Resolution Procedure Pack at: https://mss.clwydpensionfund.org.uk/home/lgps-scheme/forms-and-resources/index.html

Contact Details

For further information on this section of the Annual Report please contact:

Mrs Karen Williams, Pensions Administration Manager

Clwyd Pension Fund, County Hall, Mold, CH7 6NA.

Email: Karen.williams@flintshire.gov.uk

Tel: 01352 702963

Appendix 5 - Funding and Flightpath Review

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An update from the Actuary

I am delighted to provide my annual update from an actuarial perspective on the activities of the Clwyd Pension Fund (the Fund) during 2021/22. This was a particularly difficult period given the impact of rising inflation, rising interest rates and the likely global recession in major economic markets. We have now entered a stagflationary environment (lower growth, higher inflation), which will be a challenge for the Fund, given the liabilities are directly linked to UK Consumer Prices Inflation (CPI). This means the assets need to work harder to keep pace with the increasing liabilities.

Despite the challenging economic environment, the Fund has been resilient both financially and operationally over this period, which is testament to the strong governance and oversight in place. It is pleasing to see that the estimated funding position, whilst volatile, is still above 100% at the end of March 2022 based on an approximate roll forward of the 2021 interim valuation update. This will be formally reviewed as part of the 2022 actuarial valuation, which will be a key project for the Fund and employers over the coming year. The results and employer contributions will be formally signed off in March 2023, with the new contributions coming into effect from 1 April 2023.

The Risk Management Framework has been integral to achieving the surplus funding position and will help provide much needed overall contribution stability. The challenge now is to consider how we can maximise the chance of remaining fully funded or better through a combination of the investment strategy and employer contributions to provide ongoing stability, particularly in light of the high inflation that has continued after 31 March 2022. This is a delicate balance as providing more certainty through reduced risk may result in lower returns being achieved, which in turn would impact on the funding position, and increase contribution requirements.

Going forward there is little doubt that we are going to see further increases in interest rates in the UK and globally to try to mitigate the spiralling inflationary environment. Whether the monetary policy can influence materially on this given the structural supply and labour issues we are seeing in the UK remains to be seen. Whatever approach is taken, there is no doubt that the Fund is facing a number of challenges, but I do know that having the Risk Management Framework and the exceptional wider financial governance framework in place will help the Fund navigate this as effectively as possible.

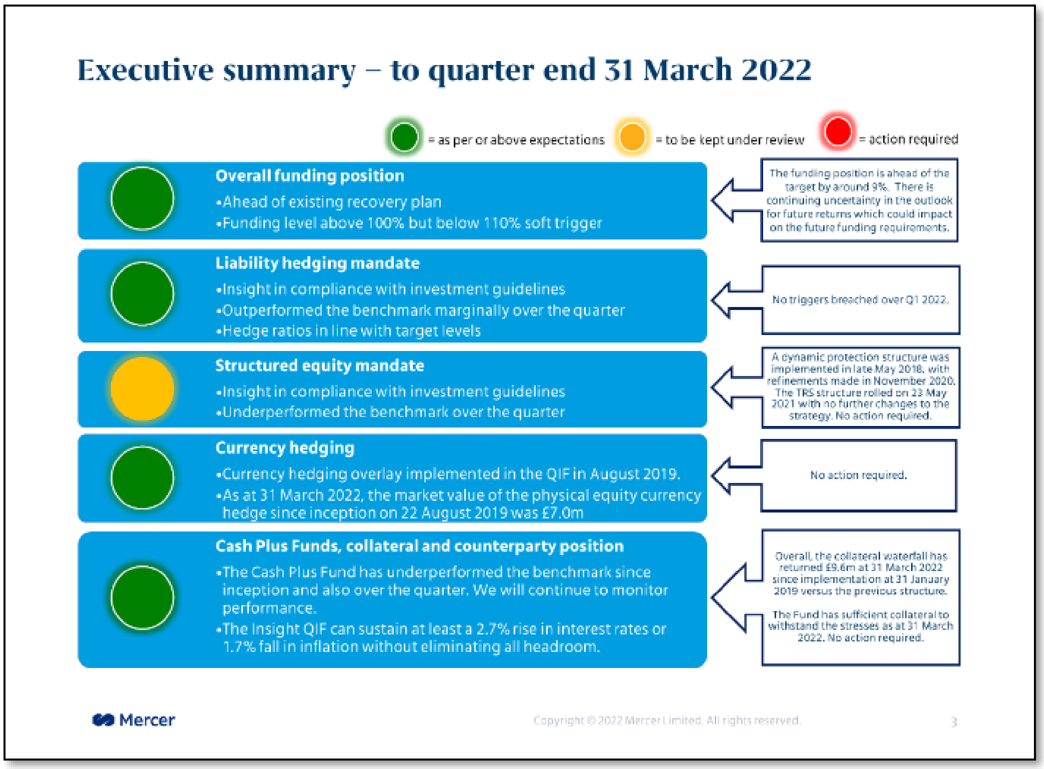
Risk Management Framework

Flightpath Strategy

A critical aspect of managing risk relates to the Flightpath Strategy, which is central to providing stability of funding and employer contribution rates in the long term. This strategy has been in operation for 8 years now and there have been big strides forward in achieving the objective of reaching full funding by 2026.

Over the year, the level of liability risk hedging (the “hedge ratio”) within the framework increased marginally (to just over 25% for interest rates and 40% for inflation expectations. We have seen several increases in interest rates and bank base rates are currently at 1.75% (as announced on 5 August 2022) with more increases likely. The level of inflation hedging has provided some protection against the rising inflationary environment.

The funding plan was well ahead of the target set as part of the 2019 valuation as at 31 March 2022 despite the ongoing uncertainty in investment markets. Overall, the funding position was estimated to be 101% as at 31 March 2022 based on a roll forward from the 2021 interim valuation review, which was 8% ahead of target meaning that the full funding objective was met despite the increased inflation and falls in markets. However, we have seen some deterioration since 31 March 2022 due to the continued ongoing inflationary pressures (increasing the liabilities) and the falls in asset values. The position remains volatile and we expect this to continue for a while yet.



We monitor the funding position on a monthly basis and the impact of the funding deterioration will be considered as part of the 2022 valuation and the employer contribution requirements, noting that the inflationary pressures are also affecting employer budgets through wage inflation and operational costs from energy and other goods.

Whilst monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the Flightpath run by Insight Investment Management (Insight) are working correctly, as this is vital to the success of the strategy. Therefore, we monitor on a monthly basis using a red/amber/green ("RAG") rating system and the summary at March 2022 is shown. It can be seen that all aspects were in line with expectations apart from:

- The synthetic equity mandate has seen some underperformance relative to an unhedged equity position since inception. This is driven by the sharp rally in equity markets post March 2020 following the Covd-19 market recovery, which caused the value of the equity downside protection to be less valuable. Overall, however, the rally in markets has meant that the synthetic equity mandate has been a key contributor to the improved overall funding position. This equity downside protection is still critical to the overall strategy of protecting against large falls in markets, such as those we experienced last year due to the economic impact of the pandemic.

- It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets. Importantly over the longer-term, the increased security allows less prudence in the Actuarial Valuation assumptions, which could translate into lower contributions at the 2022 valuation, and maintaining the equity exposure supports a lower cost of accrual than under traditional de-risking methods.
- The Fund will consider the current high inflationary environment in relation to setting the inflation assumption for the formal actuarial valuation as at 31 March 2022. This includes considering the effectiveness of the Bank of England's monetary policy of increasing interest rates.

Changes to the Risk Management Framework

Following the strong performance of the framework and analysis of the collateral adequacy position, the Funding and Risk Management Group (FRMG) agreed to release £100m of collateral from the risk management framework. It was decided that this would be invested into private market assets over the next few years. Given it takes time to fund these investments, £50m of the earmarked value was invested within the collateral management strategy within the framework in order to generate additional return in the interim. The FRMG also put in place a robust cash management plan should the Fund need to source liquidity at short notice, improving the governance around cashflow management.

The Flightpath framework will continue to be monitored as part of the regular FRMG meetings.

What will we need to consider during 2022/23?

As well as the challenge of the global economic environment, there are a number of other areas that the Fund will need to navigate and react to.

- **2022 actuarial valuation** – The effective date for the 31 March 2022 valuations has now passed. Work is now well underway as the Fund and the Actuary begin to consider the assumptions (financial and demographic) to adopt and the outlook for markets. The results will be communicated to employers during Q4 2022 and summarised within the 2022/23 update from the Actuary.
- **Impact of rising inflation and interest rates** – As you will be well aware, the rate of inflation has recently reached its highest level in over 40 years, with the annual increase in CPI to June 2022 hitting 9%. It is quite conceivable that the April 2023 pension increase (which is based on the September 2022 annual CPI value) could be double digit, which is the highest pension increase since the 1970's. This has been driven by various factors initially, but also exacerbated by the impact of the crisis in Ukraine on energy, petrol and food prices with other factors such as low unemployment adding to concerns of sustained high inflation.
- The Bank of England has already taken some steps to control UK inflation and at the August monetary policy committee increased the base interest rate to 1.75% p.a., aiming to encourage saving instead of spending, and hence more price competition. It predicts that this will bring CPI inflation to below its 2%

target within a few years, although this seems somewhat optimistic given the global influences on UK inflation, which are not within the Bank of England's gift to control. As a result, there is considerable uncertainty in how prolonged the situation may last and this uncertainty was highlighted by the Bank of England in its latest forecast.

- **Climate change** – at the time of writing we are seeing a year of record-breaking temperatures in the UK and rightly climate change continues to be one of the issues at the top of the agenda. The Fund rightly has climate change at the centre of its policies and is already taken steps aiming to manage climate change risk within the investment strategy through its net zero policy and impact investing. We will be considering this in more detail from a funding perspective for the 2022 valuation. This will comprise using scenario analysis to test the potential evolution of the Fund's funding position over time under different climate change transition scenarios, which will help inform our understanding of the resilience of the funding strategy and how the current investment strategy plus planned future changes impact on this.
- **Maintaining full funding** – In light of the funding level moving over 100%, the challenge is how do we maintain or even improve this position through contributions and investment returns. This cannot be guaranteed and will be a delicate balance between a number of often competing factors. The 2022 actuarial valuation will also impact on the funding level as updated membership data and assumptions (including demographic factors) are incorporated.
- **McCloud remedy** – On 10 March 2022, the Public Sector Pensions and Judicial Offices Bill received Assent. The next stage in the process will therefore be for Regulations for each of the Public Sector Schemes to be released together with a consultation on draft guidance to assist Funds in implementing the remedy. Both are expected prior to parliamentary recess in the summer of 2022.
- From a funding perspective, a letter from the Head of Local Government Pensions at DLUHC was forwarded to administering authorities setting out DLUHC's recommendations on how the impact of the McCloud Judgment should be taken into account as part of the 31 March 2022 actuarial valuation. For the Fund, the recommendations were in line with the treatment already incorporated into the 2019 valuation outcomes and hence no significant changes in approach/outcome are expected as part of the 2022 valuation exercise other than for those employers who decided not to make a provision in their current contributions rates.

I have covered a wide range of challenges and opportunities for the Fund and I remain confident that we are in the best place possible to navigate these over the next few years and beyond given the strong financial governance in place.

Paul Middleman FIA

Fund Actuary and Pensions Advisory Panel member

Appendix 6 - Investment Policy and Performance Report

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I am pleased to provide an update from an investment perspective on the activities of the Clwyd Pension Fund (the Fund) during 2021/22. As the Fund's Investment Consultant, I provide advice to the Fund on how to manage various investment risks. I also have a specific role in guiding the overall direction of the Fund via my seat on the Fund Advisory Panel and the Funding and Risk Management Group (FRMG).

Investment Strategy Statement (ISS)

When considering the Fund's investments it is appropriate to start with the overall investment objectives, which are set out in the ISS. The ISS is appended to this report and sets out the funding and investment objectives for the Fund. The specific investment objectives are:

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
- Aim to use the Wales Pensions Partnership (WPP) as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

Each of these specific objectives have embedded within them the Fund's desire to incorporate sustainability in its long-term approach and to demonstrate that it is acting effectively as a Responsible Investor.

This report demonstrates progress made towards these long-term objectives during the year, compliance with the ISS, the economic and market environment and changes implemented or planned during the year.

Market Commentary

- The world entered the second quarter of 2021 with heavy COVID-19 related restrictions in place. The successful roll-out of vaccinations in developed countries created optimism over imminent reopening's that would be more sustainable this time than a year before. The reopening rebound in July and August 2021 in developed countries did indeed materialize and drove risk-on sentiment initially. However, some emerging economies re-imposed restrictions, which added to already existing supply chain pressures. The supply impact was felt with increasing intensity in September with bottlenecks in a large number of areas.
- One major event was a run on UK petrol stations at the end of September after rumours of fuel shortages became a self-fulfilling prophecy. Rising energy future prices in the UK and Europe led to a further deterioration in sentiment. In the emerging world, China's attempt to deflate its property market by tightening credit increased financial distress and led to the bankruptcy of some large property developers, most notably Evergrande. This came in addition to its disruptive regulatory campaign that created enormous uncertainty for Chinese companies and led to a sharp deterioration in business sentiment.
- The fourth quarter did not bring much better news for investors. Persistently high inflation in both developed and emerging countries prompted central banks to become more hawkish. Tightening in emerging markets that had already started reacting earlier in the year continued. The Federal Reserve began to taper asset purchases, setting the stage for interest rate rises as early as in 2022. The Bank of England increased rates by 15bps to 0.25% in December. Only the European Central Bank and Bank of Japan remained on the fence.
- There was a further COVID-19 variant scare from late November onwards but with a more limited impact this time. International travel restrictions were somewhat tightened and only few countries in Europe re-imposed meaningful domestic restrictions. The US and UK opted instead for a more pragmatic approach of keeping their economies open and focusing on making booster vaccinations more widely available. Some optimism returned late in the year as existing vaccines proved to still be sufficiently effective against severe symptoms whilst the new variant also appeared to be less severe than feared, although more contagious.
- At first, 2022 started on a positive note. The continued absence of far-reaching COVID restrictions in developed countries supported demand. Although inflation came in at elevated levels, a combination of improving supply chains and moderate monetary tightening was expected to bring it under control. The invasion of Ukraine and subsequent spike in commodity markets completely changed this narrative. Central banks were forced to accelerate this pace of tightening even as growth expectations were dialled down. The recovery in supply chains was nipped in the bud both due to the conflict, sanctions on Russia and China locking down large manufacturing hubs.

- Overall, the 12-month period was shaped by a strong global economic recovery supported by economies reopening, higher increased household savings and loose monetary policy. This position fell under pressure in 2022 amid rising inflation, tightening monetary policy, the conflict in Ukraine and renewed lockdowns in China, just when there was hope that supply chains would improve and COVID-19 would cease to cause major economic disruptions.
- At a global level, developed markets as measured by the FTSE World index, returned 14.9%. Meanwhile, a return of -3.3% was recorded by the FTSE All World Emerging Markets index.
- At a regional level, European markets, excluding the UK, returned 6.5% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 13.0%. The FTSE USA index returned 19.3% while the FTSE Japan index returned -2.3%. UK equities caught up considerably with global equities in the first quarter of 2022 due to the index's large exposure to oil, gas and basic materials.
- Equity market total return figures are in Sterling terms over the 12-month period to 31 March 2022.
- UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -5.1%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -7.2% over the year. The yield for the FTSE Gilts All Stocks index rose over the year from 1.2% to 1.7% while the Over 15 Year index yield rose from 0.7% to 1.1%.
- The FTSE All Stocks Index-Linked Gilts index returned 5.1% with the corresponding over 15-year index exhibiting a return of 3.9%. Rising inflation expectations offset rising nominal yields to an extent, cushioning the fall of real yields somewhat which explains the outperformance of index-linked gilts relative to nominal gilts.
- Corporate debt as measured by the ICE Bank of America Merrill Lynch Sterling Non-Gilts index returned -5.1%.
- Over 12-month period to 31 March 2022, the MSCI UK All Property Index returned 23.9% in Sterling terms. All three main sectors of the UK Property market recorded positive returns over the period (retail: 20.8%; office: 6.7%; and; industrial 42.3%).
- The price of Brent Crude Oil rose 69.2% from $63.52 to $107.46 per barrel over the one-year period. Commodities rallied significantly in the first quarter of 2022, as Russia invaded Ukraine. As Russia was sanctioned by large parts of the world, energy markets spiked due to the uncertainty of supply given Russia being such a large supplier of oil and gas to Europe.
- The S&P GSCI Commodity Spot Index returned 62.4% over the one-year period to 31 March 2022 in Sterling terms.
- Over the 12-month period to 31 March 2022, Sterling appreciated by 0.8% against the Euro from €1.17 to €1.18 and appreciated 4.8% against the Yen, from ¥152.46 to ¥159.81. Sterling depreciated against the US Dollar by -4.6%, from $1.38 to $1.32.

Clwyd Pension Fund Investment Performance 2021/22

The Fund posted strong investment returns for the year returning 13.3% for the twelve months, well ahead of the Actuary's future service return assumption of CPI +2.25%, as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

The Fund returned 13.3% compared with a composite benchmark (of the underlying manager benchmarks) of 9.1%. Whilst the returns for the year were well ahead of the required rate, given the impact COVID-19 had on the preceding year's returns, it remains appropriate to see this in context of the longer-term performance. Over three years to the 31 March 2022 the Fund achieved a return of +9.9% per annum, compared with a benchmark of +8.9% per annum. This performance is also well ahead of the future service target of CPI +2.25%.

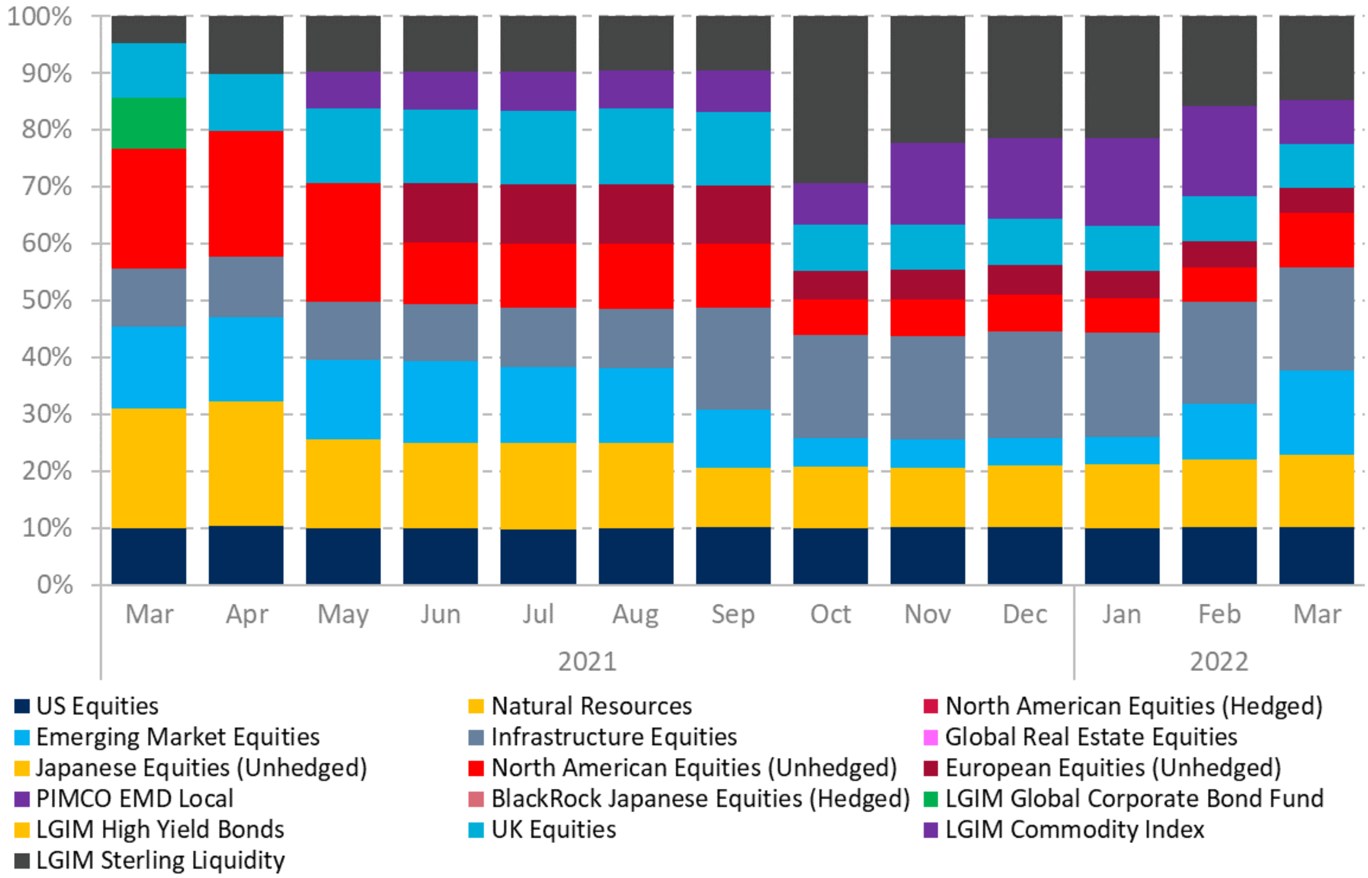
The Equity portfolio that includes Global and Emerging Market Equity exposures returned +2.3% due to the falls in equity markets over the year to 31 March 2022. The BlackRock World ESG portfolio returned +16.8%, outperforming its target of +16.5%, whilst the Russel WPP Global Opportunities portfolio returned +11.0%, underperforming its target of +14.6% over the 12 months.

The Multi-Asset Credit (MAC) portfolio produced a negative return of -2.1% against a target of 4.1%. The portfolio mainly detracted due to security selection within the US and the impact that the Russian invasion of Ukraine had on credit markets in late February and March of 2022.

The Best Ideas Portfolio produced a return of +20.3% over the one year period to 31 March 2022, well in excess of its long term target of CPI +3.0% p.a.

Throughout the year under review, a number of positions have been taken within the underlying composition of the Best Ideas portfolio as demonstrated in the chart below. There is a monthly meeting of the Tactical Asset Allocation Group where Mercer monitor and review the portfolio and make recommendations to the

Fund Officers. A robust process has been put in place with a transparent audit trail (including minutes of all meetings) documenting any changes and decisions together with their rationale.



Source: Mobius Life

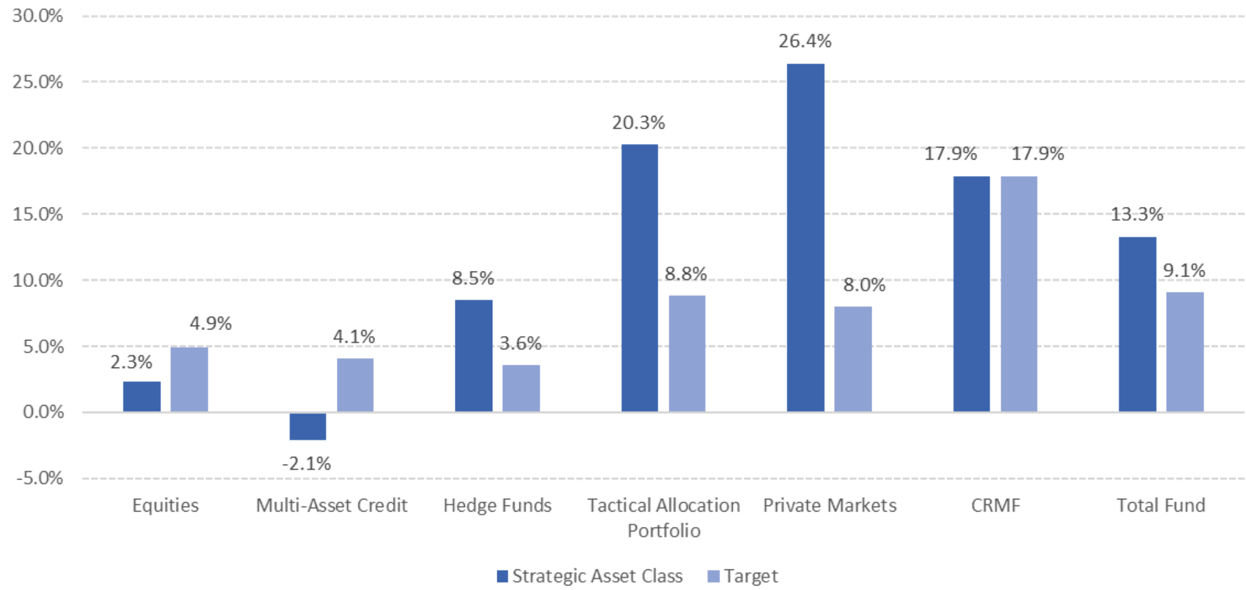
The chart demonstrates the diversified nature of the holdings within the Best Ideas portfolio, which has included Developed Equities, Emerging Market Equities, Commodities and Corporate Bonds as well as liquid alternatives in the form of listed Infrastructure. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group over the year. One key holding during the year has been the Sterling Liquidity (cash) fund. This has been particularly helpful at the start of 2022 as market volatility and falling valuations hit all investors.

The Managed Account Platform with MAN contains a Hedge Funds portfolio, which produced a strong absolute return of +8.5% during the year. The portfolio was restructured as part of the strategic review and the new structure was in place with effect from April 2020.

In the 12 months under review the Private Markets assets lead performance achieving a positive return of +26.4%. Within the Private Markets portfolio Local/Impact and Private Equity posted the strongest returns, returning +40.3% and +36.0%, respectively.

The Cash and Risk Management Framework investment portfolio (a key component of the Risk Management Framework) which consists of regional synthetic Global Equities, Gilt and inflation exposures (as well as equity protection and currency hedging strategies) returned +17.9% in 2021/22. However, the performance of this portfolio over the short term is less relevant due to its risk management characteristics. The risk management elements of the portfolio performed as expected and managed the fund's risks effectively over the period.

The chart below summarises the 12-month performance against the target for each of the Fund's asset classes and managers together with the total Fund. It should be noted we have only included those funds/asset classes that have a full 12-month return.



Source: Investment Managers, Mercer

Summary of Investment Performance 2021/22

Market conditions over the year to 31 March 2022 year were beneficial for investors, and the Fund benefited from these investment markets. COVID-19 restrictions were lifted across the globe which improved investor sentiment. The first quarter of 2022 has seen markets fall off largely due the tightening of monetary policies across UK, US and Europe as well as the impact on supply chains resulting from the Russian invasion of Ukraine, which has ultimately reduced the yearly returns to March 2022.

As a result the performance of the Fund for the twelve months under review was +13.3%.

The Fund's allocations to private markets (+26.4%) and the Tactical Asset Allocation (+20.3%) helped propel the Fund over the period. The Fund's cash and risk management allocation also posted strong returns over the year in review, returning +17.9%. Equities returned a positive return (+2.3%) over the period, whilst Multi-Asset Credit dragged on performance (-2.1%).

Investment Strategy

The Fund's Investment Strategy is shown in the table below:

Strategic Asset Class	**Strategic Allocation (%)**	**Strategic Range (%)**	**Conditional Range (%)**
Developed Global Equity	10.0	5.0 – 15.0	0 – 30
Emerging Market Equity	10.0	5.0 – 15.0	0 – 30
Hedge Funds	7.0	5.0 – 9.0	0 – 15
TAA/Best Ideas	11.0	9.0 – 13.0	0 – 20
Multi-Asset Credit	12.0	10.0 – 14.0	0 – 20
Cash and Risk Management Framework	23.0	10.0 – 35.0	0 – 40
Private Markets			
Property	4.0	2.0 – 6.0	0 – 8
Private Equity	8.0	6.0 – 10.0	0 – 15
Local/Impact	4.0	0.0 – 6.0	0 – 8
Infrastructure	8.0	6.0 – 10.0	0 – 15
Private Credit	3.0	1.0 – 5.0	0 – 6

The Fund's Investment Strategy continues to be more diversified than most Local Government Pension Scheme (LGPS) Funds and incorporates a Risk Management Framework, which differentiates the Fund from many other LGPS Funds. The aim of the Fund's strategy remains to reduce the volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years.

The Cash and Risk Management Framework is a key feature of the Fund's Investment Strategy and looks to manage a number of the key risks. As described above the strategic target weight has been increased as part of the recent review, demonstrating that it remains strategically important. This portfolio is explained in more detail in the Risk Management section of the Actuary's report.

The Best Ideas Portfolio is a short-term (12-month horizon) tactical allocation based upon Mercer's suggested "best ideas". Aside from the decisions being made on a tactical (short-term) basis, the basic premise of the decisions within this portfolio is that any asset allocation implementation should be liquid (to enable speed of action should it be required) and cost efficient. Given the material size of this allocation (11% of total Fund assets), further detail is provided in the Performance section of this report. The following table shows the strategic allocation compared to the actual asset allocations as at 31 March 2021 and 31 March 2022.

As we start the 2022/23 period, there continues to be a significant amount of volatility across financial markets. In conjunction with the 31 March 2022 Actuarial Valuation, the Fund will be undertaking an Investment Strategy Review and potentially making changes to the strategic asset allocation based on a range of factors including but not limited to: market volatility, the challenging outlook for growth and inflation.

Strategic Allocation vs Actual Allocations (Note: Totals may not sum due to rounding)

Manager	Mandate	Actual 31/03/21	Actual 31/03/22	Strategic Allocation 21/22
Developed Global Equity				10.0%
WPP	Global Equity	5.4%	5.3%	5.0%
BlackRock	Global Equity	5.2%	5.4%	5.0%
Emerging Market Equity				
Wellington	EM (Core)	3.6%	0.0%	0.0%
Wellington	EM (Local)	3.3%	0.0%	0.0%
BlackRock	Emerging Equity	3.8%	0.0%	0.0%
WPP	Emerging Equity	0.0%	9.0%	10.0%
Hedge Funds				
ManFRM	Hedge Funds	6.7%	6.4%	7.0%
TAA / Best Ideas				11.0%
In-house	Best Ideas Portfolio	10.6%	11.1%	11.0%
Multi-Asset Credit				
WPP	Multi-Asset Credit	11.5%	10.0%	12.0%
Cash and Risk Management Framework				23.0%
Insight	CRMF	24.4%	25.5%	23.0%
Private Markets				
Various	Property	6.0%	6.0%	4.0%
Various	Private Equity	7.7%	7.9%	8.0%
Various	Local/Impact	2.3%	2.7%	4.0%
Various	Infrastructure	4.7%	4.8%	8.0%
Various	Private Credit	2.3%	2.1%	3.0%
Various	Timber/Agriculture	0.8%	0.5%	0.0%

Manager	Mandate	Actual 31/03/21	Actual 31/03/22	Strategic Allocation 21/22
Cash		1.7%	3.2%	0.0%

During the 2021/2022 period, the Fund switched out of Wellington Emerging Market Core and Local Funds and BlackRock Emerging Market Equity Fund and transferred all Emerging Market allocation into the WPP Emerging Market Fund. This was in line with the Fund's objective to use the WPP for investing the Fund's assets.

Responsible Investment

The Fund's ISS includes the full Responsible Investment Policy and includes the approach to Investment Pooling, Stewardship and Engagement and Reporting and disclosure. The Policy includes the Fund's Responsible Investment beliefs, and a set of Principles. It also sets five key Strategic Responsible Investment Priorities for the work in this area over the next three years.

The Fund has continued to progress significantly in the work undertaken over the past year. Progress has been made across all of the strategic Responsible Investment Priorities as detailed in the ISS. In particular, the Committee approved a strategy to achieve net-zero carbon emissions from its investment portfolio. The Committee agreed an ambitious target for the investments in Clwyd Pension Fund, as a whole, to have net zero carbon emissions by 2045, with an interim target of carbon reduction of 50% by 2030.The Fund has also continued to deploy allocations into sustainable private market investments, many of which have direct impact focus, with some allocations designed to directly benefit the Fund in the local area.

The Committee have received a series of dedicated training sessions across a range of Responsible Investment areas and the Fund continues to take actions that place it at the forefront of the Responsible Investment landscape.

Engagement and Voting

The Fund requires that its managers report how they voted the shares held within their portfolios. A summary of the voting activities of the managers for 2021/22 is shown in the following table.

Manager	Annual/ Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
BlackRock - ESG	**274**	**3,937**	**3,641**	**266**	**29**	**1**
Russell - Global Ops	**61**	**704**	**634**	**64**	**5**	**1**
Russell - Emerging Market	**19**	**187**	**139**	**35**	**1**	**12**

Source: Investment Managers

United Nations Principles for Responsible Investment

The Fund engages with all of its asset managers to ensure that they are fully aware of their responsibilities with regard to sustainability, and one of the ways in which the fund management industry can demonstrate that it takes its responsibilities seriously is to become a signatory to the UN Principles for Responsible Investment (UN PRI). Firms that are signatories to the UN PRI are required to commit to a set of six principles promoting and incorporating Environmental Social and Governance (ESG) principles into all aspects of its work. The Fund's major asset managers are all UN PRI signatories. For sake of completeness, Russell are not considered a direct manager of assets as they manage a portfolio of underlying investment managers. These underlying investment managers are being encouraged to become signatories to the UN PRI.

Summary of the Longer Term

The market value of the Fund has increased from approximately £1,082.7m in March 2012 to £2,490.8m in March 2022.

The table below shows a summary of the annualised investment performance over the last 10 years compared with the Fund's benchmark and local government pension funds.

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa
1	+13.3	+9.1	+8.6
3	+9.9	+8.9	+8.3
5	+7.8	+7.4	+7.1
10	+8.4	+8.1	+8.9

Source: Mercer, PIRC

Performance to 31 March 2022

	Investment Manager	Q1 2022 (%)	B'mark (%)	1 Yr (%)	B'mark (%)	3 Yrs (%)	B'mark (%)	5 Yrs (%)	B'mark (%)	10 Yrs (%)	B'mark (%)
Total		**-0.9**	-1.0	**13.3**	9.1	**9.9**	8.9	**7.8**	7.4	**8.4**	8.1
Total Equity		**-3.1**	-2.9	**2.3**	4.9	**9.1**	11.0	**8.0**	9.4	**10.0**	11.6
WPP Global Opportunities	Russell	-1.4	-2.2	11.0	14.6	14.5	15.6	--	--	--	--
World ESG Equity	BlackRock	-1.8	-1.9	16.8	16.5	--	--	--	--	--	--
Emerging Markets Equity	Russell	-4.9	-3.9	--	--	--	--	--	--	--	--
Total Credit		**-3.8**	1.1	**-2.1**	4.1	**1.9**	2.9	**1.8**	2.5	**2.1**	1.9
WPP Multi-Asset Credit	Russell	-3.8	1.1	-2.1	4.1	--	--	--	--	--	--
Total Hedge Funds		**0.4**	1.0	**8.5**	3.6	**4.4**	3.9	**--**	--	**--**	--
Hedge Funds	Man	0.4	1.0	8.5	3.6	4.4	3.9	2.4	4.0	--	--
Hedge Funds (Legacy)	Man	-5.8	1.0	-4.1	3.6	-9.6	3.9	-35.2	4.0	--	--
Total Tactical Allocation		**8.1**	2.5	**20.3**	8.8	**11.5**	5.8	**7.8**	5.6	**3.9**	5.0
Best Ideas	Various	**8.1**	2.5	**20.3**	8.8	**12.0**	5.8	**8.8**	5.6	**2.4**	0.1
Total Private Markets		**4.3**	2.0	**26.4**	8.0	**11.0**	5.8	**10.7**	5.9	**--**	--
Property	Various	5.0	5.6	16.9	23.9	7.0	8.4	7.5	8.4	8.2	9.2
Private Equity	Various	4.9	1.3	36.0	5.1	17.3	5.4	15.7	5.5	13.0	5.6
Local / Impact	Various	2.3	1.3	40.3	5.1	--	--	--	--	--	--
Infrastructure	Various	4.7	1.3	22.3	5.1	6.2	5.4	7.1	5.5	12.2	5.6
Private Credit	Various	1.6	1.8	18.1	7.5	4.4	7.5	--	--	--	--
Timber/ Agriculture	Various	2.6	1.3	6.1	5.1	0.9	5.4	0.6	5.5	2.2	5.6
Total CRMF		**-6.3**	-6.3	**17.9**	17.9	**16.0**	16.0	**11.4**	11.4	**--**	--
Cash and Risk Management Framework (CRMF)	Insight	-6.3	-6.3	17.9	17.9	16.0	16.0	11.4	11.4	--	--

Source: Investment Managers, Mercer.
Note: Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Refinitiv. For periods over one year the figures in the table above have been annualised.

The following table documents the changes in the Fund's Investment Strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current weightings were reviewed in 2019, the new strategy was in effect from April 2020.

Core Manager Investments	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	2017 (%)	2020 (%)	LGPS Average
Equities								
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	5.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	-	
Global Developed (ESG)	-	-	-	-	-	-	5.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	-	-	
UK Active (Traditional)	35.0	29.0	15.0	-	-	-	-	
UK Active (Portable Alpha)	10.0	10.0	12.0	-	-	-	-	
US Active	7.0	8.0	5.0	-	-	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	-	-	
Japan Active	4.0	4.0	4.0	-	-	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	-	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	6.0	10.0	
Frontier Markets Active	-	-	-	-	2.5	-	-	
Developed Passive	-	-	-	19.0	-	-	-	
	72.0	**66.0**	**55.0**	**43.0**	**17.0**	**14.0**	**20.0**	**54.0**
Fixed Interest								
Traditional Bonds	10.0	9.5	-	-	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	12.0	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	3.0	
Cash/ Other	2.5	0.5	-	-	-	-	-	
	14.0	**12.0**	**13.0**	**15.0**	**15.0**	**15.0**	**15.0**	**18.0**
Liability Driven Investment	-	-	-	-	**19.0**	**19.0**	**23.0**	-

Core Manager Investments	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	2017 (%)	2020 (%)	LGPS Average
Alternative Investments and Cash								
Property	5.0	7.0	6.5	7.0	7.0	4.0	4.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	6.0	8.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	2.0	-	
Commodities	-	-	2.0	4.0	-	-	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	10.0	8.0	
Local/ Impact	-	-	-	-	-	-	4.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	-	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	9.0	7.0	
Currency Fund	-	4.0	4.0	-	-	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	-	-	
Tactical Allocation (Diversified Growth)	-	-	-	-	10.0	10.0	-	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	11.0	11.0	
	14.0	**22.0**	**32.0**	**42.0**	**49.0**	**52.0**	**42.0**	**28.0**

In House Portfolio

Asset Class	Number of Funds
Property Closed Ended Holdings	**5**
Schroders	1
Hermes	1
LAMIT	1
Legal & General	1
BlackRock	1
Property Open Ended Holdings	**21**
Aberdeen Property Asia Select	1
Basecamp	1
BlackRock European Feeder	2
BlackRock US Residential	1
Darwin Leisure Property	2
Franklin Templeton	2
InfraRed Active Property	3
Newcore	1
North Haven Global Real Estate	3
Paloma Real Estate	2
Partners Group Global Real Estate	2
Threadneedle	1
Timber	**5**
BGT Pactual Timberland	2
Stafford Timberland	3
Agriculture	**2**
Insight Global Farmland	1
GMO	1
Infrastructure	**18**
Access Capital Infrastructure	1
Arcus European Infrastructure	1
Carlyle Global Infrastructure	1
GSAM West Street Infrastructure	1
HarbourVest Real Assets	1
Hermes Infrastructure	1
InfraRed	3
Infravia	1
Innisfree	1
JP Morgan Infrastructure	1
Marine Capital	1
North Haven Global Infrastructure	3
Pantheon	1
Partners Group Direct Infrastructure	1
Total Funds	**51**

Asset Class	Number of Funds
Private Equity Direct Funds	**27**
Access Capital	1
Apax	5
August Equity	3
Capital Dynamics	3
Carlyle Group	1
Charterhouse	2
Dyal Capital Partners	1
ECI	3
FSN	1
GB Deutschland	1
Livingbridge	1
Marquee	1
North Haven	1
Partners Direct	2
Unigestion	1
Private Equity Fund of Funds	**31**
Access Capital	4
Capital Dynamics	7
HarbourVest	5
JP Morgan Secondary's	1
Partners Group	10
Standard Life	2
Unigestion	2
Local / Impact	**21**
Aviva	1
Bridges	6
Circularity	1
Development Bank of Wales	1
Environmental Technologies	3
Ludgate Environmental	1
Fairfax	1
Foresight	2
Harbour Vest	1
Hermes	1
Impax	2
Infrared	1
Partners Group	1
Total Funds	**79**
Private Debt	**7**
BlackRock	1

Asset Class	Number of Funds
Carlyle	3
Neuberger Berman	1
Permira	1
Pinebridge	1
Total Funds	**7**

Kieran Harkin

Head of LGPS Investments

Appendix 7 - Clwyd Pension Fund Accounts

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For The Year Ended 31st March 2022

FUND ACCOUNT

2020/21 £000		Note	2021/22 £000
	Dealings with members, employers and others directly involved in the Fund		
(81,805)	Contributions	7	(85,253)
(3,415)	Transfers in	8	(6,956)
(85,220)			**(92,209)**
	Benefits payable :		
65,188	Pensions	9	66,875
9,454	Lump sums (retirement)		14,572
2,654	Lump sums (death grants)		2,251
77,296			**83,698**
5,924	Payments to and on account of leavers	10	4,456
83,220			**88,154**
(2,000)	**Net (additions)/withdrawals from dealings with members**		**(4,055)**
21,924	Management expenses	11	25,766
19,924	**Net (additions)/withdrawals including fund management expenses**		**21,711**
	Returns on Investments		
(17,804)	Investment income	12	(23,589)
(450,889)	Change in market value of investments	13A	(262,709)
(468,693)	**Net return on investments**		**(286,298)**
(448,769)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(264,587)**
(1,777,439)	**Opening net assets of the scheme**		(2,226,208)
(2,226,208)	**Closing net assets of the scheme**		**(2,490,795)**

NET ASSETS STATEMENT

2020/21 £000		Note	2021/22 £000
2,222,792	**Investment Assets**	**13**	2,485,770
2,222,792	**Net Investment Assets**		**2,485,770**
254	**Long-term debtors**	**19**	294
5,059	**Debtors due within 12 months**	**19**	6,962
(1,897)	**Creditors**	**20**	(2,231)
2,226,208	**Net assets of the fund available to fund benefits at the end of the reporting period**		**2,490,795**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the actuary's report (Note 25).

Notes to the Clwyd Pension Fund Accounts For The Year Ended 31st March 2022

Note 1 – Description of the Fund

General

Clwyd Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Flintshire County Council. The County Council is the reporting entity for the Fund.

The LGPS is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013, as amended;
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, as amended; and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The LGPS is a contributory defined scheme, which provides pensions and other benefits to employees and former employees of Flintshire County Council and scheduled and admitted bodies in North East Wales. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Clwyd Pension Fund Committee which is a committee of Flintshire County Council.

The accounts have been prepared during the national emergency situation arising from the global COVID-19 pandemic and reference will be made to any known impacts of this as required within the document. The accounts have been prepared in accordance with the 2021/22 Code of Practice (the Code) on Local Authority Accounting which is based on International Financial Reporting Standards (IFRS).

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below in more detail:

2020/21 No.		2021/22 No.
52	**Number of employers with active members**	**52**
	Number of employees in scheme	
5,524	Flintshire County Council	5,552
12,018	Other employers	11,521
17,542	**Total**	**17,073**
	Number of pensioners	
4,011	Flintshire County Council	4,234
9,939	Other employers	10,300
13,950	**Total**	**14,534**
	Deferred pensioners	
5,718	Flintshire County Council	5,525
11,557	Other employers	12,363
17,275	**Total**	**17,888**
48,767	**Total employees**	**49,495**

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2022. Employers also pay contributions to the Fund based on triennial funding valuations. The last valuation was at 31st March 2019, the findings of which became effective on 1st April 2020. Currently employer contribution rates range from 11.5% to 29.4% of pensionable pay.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is increased annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits as explained on the LGPS website, see www.lgpsmember.org.

In addition the Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from the Fund. The Fund uses Prudential and Utmost (previously Equitable Life) as its AVC providers. AVCs are paid to the AVC providers by employers and provide additional benefits for individual contributors.

Note 2 - Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its financial position at 31st March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 25.

The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. The Code has introduced the following changes, amendments and interpretations to existing standards:

- - Definition of a Business: Amendments to IFRS 3 Business Combinations
- - Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- - Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- - IFRS 16 Leases – will require local authorities that are lessees to recognise most leases on their balance sheet as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to April 2024.

These changes were mandatory for the Fund's accounting periods beginning on or after 1st April 2021 or later periods and may require changes to accounting policies in future year's accounts. They are not expected to have a material impact on the Fund's financial statements.

Note 3 – Summary of significant accounting policies

In summary, accounting policies adopted are detailed as follows:

Fund Account – Revenue recognition

Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- - Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- - Employer contributions are set at the percentage rate recommended by the Fund's actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employer's contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

Investment income

- - Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- - Distributions from funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- - Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Management expenses

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accruals basis.

All staff costs in relation to administration expenses are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund.

Investment management expenses include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees. Where fees are netted off quarterly valuations by investment managers, these expenses are included in note 11A and grossed up to increase the change in the value of investments.

Where the Fund has invested in Fund of Funds arrangements and underlying fees are incurred these are not recognised in the Funds accounts, in accordance with guidance from CIPFA. Details of underlying fees may be found in the Fund's Annual Report.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

As Flintshire County Council is the administering authority for the Fund, VAT input tax is recoverable from all Fund activities including expenditure on investment expenses.

Net Assets Statement

Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 13A. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

Financial liabilities

Financial liabilities are recognised at fair value on the date the Fund becomes legally responsible for the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund as part of the change in value of investments.

Actuarial present value of promised future retirement benefits

The actuarial value of promised future retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Code and IAS 26. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a report from the actuary (note 25).

Additional Voluntary Contributions (AVCs)

The Fund provides an AVC scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016), but are disclosed as a note only (see Note 21).

Note 4 - Critical judgements in applying accounting policies

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and set out in the actuary's report shown at the end of these accounts. These actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 5 - Assumptions made about the future and other major sources of uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take into account historical experience, current trends and future expectations. However, actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in asset values and individual assumptions can be measured. For instance, a 10% decrease in asset values would have reduced the 2019 valuation funding level of 91% to 82%. A 0.25% p.a. reduction in the discount rate would in isolation have reduced the funding level to 88% (a 0.25% p.a. increase in assumed inflation would have a similar impact). A combination of the asset and discount rate changes would reduce the funding level to 79%.

Value of investments at level 3	The Fund contains investments in private equity, hedge funds and pooled funds including property, infrastructure, timber and agriculture, that are classified within the financial statements as level 3 investments in note 15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance around the values reported in the Net Assets Statement.	Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.

Note 6 - Post Balance Sheet Events

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2022. Performance of global financial markets since this date may have affected the financial value of pension fund investments as reported in the Net Asset Statement, but do not affect the ability of the Fund to pay its pensioners.

As a result of the Government's "mini budget" announcement on Friday 23 September 2022, gilt yields rose significantly causing the value of gilts to fall. This was due in large part to the expectation of greater debt issuance by the government to fund various tax cuts and other spending measures. As a consequence of this, the Bank of England stepped into the market to buy gilts on a temporary basis, with the aim of preventing the prices falling further. The speed at which gilt yields rose put pressure on pension schemes that invest in gilts in a leveraged manner to collateralise portfolios at short notice to decrease leverage. Whilst the government has u-turned on the majority of the tax cuts, gilt yields remain elevated given the remaining uncertainty on the government's fiscal plans, along with the speed and size of the Bank of England's interest rate hikes to help combat inflation.

Clwyd Pension Fund (the "Fund") invests in fixed and index-linked gilts on a leveraged basis within its Liability Driven Investment (LDI) mandate and has therefore experienced a material fall in the value of these assets. The strategy is underpinned by a robust collateral waterfall framework. This is a pool of readily available assets that allowed access to required liquidity easily and promptly.

The main action following the rapid rise in gilt yields was to rearrange the overall portfolio to ensure there remains enough collateral in the event of any further gilt yield rises whilst maintaining the same overall return expectations. The Fund sold physical equities for cash to support the LDI mandate, and the sold equity exposure was replaced synthetically in order to maintain the overall strategic allocation and expected returns. This was able to be implemented quickly because of the strong governance and oversight the Fund has in place through its Funding and Risk Management Group.

Whilst the asset value of the LDI strategy has fallen due to rising gilt yields, the corresponding fall in the actuarial value of the liabilities (all other things equal) will have more than offset this, leading to no adverse impact on the funding position.

Note 7 - Analysis of contributions receivable

By employer

2020/21 £000		2021/22 £000
(26,713)	Administering Authority - Flintshire County Council	(28,080)
(51,495)	Scheduled bodies	(52,973)
(3,597)	Admitted bodies	(4,200)
(81,805)	**Total**	**(85,253)**

By type

2020/21 £000		2021/22 £000
(17,177)	**Employees contributions**	**(18,250)**
	Employers' contributions:	
(48,720)	Normal contributions	(51,918)
(14,972)	Deficit recovery contributions	(14,378)
(936)	Augmentation contributions	(707)
(64,628)	**Total employers' contributions**	**(67,003)**
(81,805)	**Total contributions**	**(85,253)**

Note 8 – Transfers in from other pension funds

2020/21 £000		2021/22 £000
(3,415)	Individual transfers	(6,956)
(3,415)	**Total**	**(6,956)**

Note 9 – Benefits payable

By employer

2020/21 £000		2021/22 £000
26,978	Administering Authority - Flintshire County Council	29,132
48,738	Scheduled bodies	52,662
1,580	Admitted bodies	1,904
77,296		**83,698**

By type

2020/21 £000		2021/22 £000
65,188	Pensions	66,875
9,454	Commutation and lump sum retirement benefits	14,572
2,654	Lump sum death benefits	2,251
77,296		**83,698**

Note 10 – Payments to and on Account of Leavers

2020/21 £000		2021/22 £000
5,670	Individual transfers	4,054
174	Refunds to members leaving service	220
80	Other	182
5,924	Total	**4,456**

Note 11 – Management Expenses

2020/21 £000		2021/22 £000
2,032	Administration costs	2,242
17,296	Investment management expenses	20,595
2,595	Oversight and governance costs	2,929
21,924	Total	**25,766**

The Oversight and Governance costs include the fees payable to Audit Wales for the external audit of the Fund of £41k for 2021/22 (£39k in 2020/21).

Note 11a – Investment management expenses

2021/22	Management Fees £000	Performance related fees £000	Transaction Costs £000	Total £000
Investment Assets				
Pooled Funds	2,946	0	1,285	4,231
Other investments				
Pooled property investments	2,103	61	260	2,424
Private equity and joint venture funds	4,618	1,990	99	6,707
Infrastructure funds	1,699	579	101	2,379
Timber and Agriculture	158	0	0	158
Private Debt	607	265	0	872
Impact / Local	2,054	1,504	160	3,718
	14,185	**4,399**	**1,905**	**20,489**
Custody Fees				106
Total				**20,595**

2020/21	Management Fees £000	Performance related fees £000	Transaction Costs £000	Total £000
Investment Assets				
Pooled Funds	2,928	0	1,814	4,742
Other investments				
Pooled property investments	1,958	55	102	2,115
Private equity and joint venture funds	3,302	1,782	107	5,191
Infrastructure funds	1,419	450	190	2,059
Timber and Agriculture	149	0	0	149
Private Debt	864	328	1	1,193
Impact / Local	1,680	59	39	1,778
	12,300	**2,674**	**2,253**	**17,227**
Custody Fees				69
Total				**17,296**

Note 11b – Wales Pension Partnership management expenses

2020/21		2021/22
£000		£000
88	Oversight and Governance	135
113	Transaction Costs	622
190	Fund Management Fees	376
36	Custody Fees	67
427	**Total**	**1,200**

Included in Management Expenses in the first table of this note is the cost of the Fund's involvement in the Wales Pension Partnership (WPP) collective investment pooling arrangement. These are further analysed in the table above. The Oversight and Governance costs are the annual running costs of the pool which includes the host authority costs and other external advisor costs. These costs are funded equally by all eight of the local authority pension funds in Wales. Fund Management Fees are payable to Link Fund Solutions (the WPP operator) and include the operator fee and other associated costs. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). Underlying manager fees are not included in this table, but are disclosed in the Finance Report elsewhere in the Annual Report. Further details on the WPP can also be found in the Finance Report.

Note 12 - Investment income

2020/21		2021/22
£000		£000
	Pooled Funds	
1,958	Income from multi asset credit	6,043
2,990	Income from global equity	2,254
0	Income from emerging market equity	1,486
	Other investments	
2,794	Income from pooled property investments	3,529
704	Income from private equity and joint venture funds	1,225
4,330	Income from infrastructure funds	5,169
0	Income from timber & agriculture funds	60
3,625	Income from private debt	3,088
952	Income from impact / local funds	677
233	Interest on cash deposits	17
218	Other income	41
17,804		**23,589**

Note 13 – Investments

2020/21		2021/22
£000		£000
	Investment Assets	
	Pooled Funds	
250,378	Multi asset credit	246,032
231,021	Diversified growth funds	273,120
500,832	Liability Driven Investment	596,076
145,594	Hedge Fund of Funds	157,982
231,367	Global equity	263,295
231,836	Emerging Market Equity	220,789
	Other investments	
132,870	Pooled property investments	146,325
193,497	Private equity and joint venture funds	201,521
106,609	Infrastructure funds	124,721
17,555	Timber and Agriculture	14,125
52,967	Private Debt	52,592
58,171	Impact/ Local	79,332
2,152,698		2,375,910
67,282	Cash deposits	109,860
2,812	Amounts receivable for sales	
2,222,792	Total investment assets	2,485,770

During the year the Fund transitioned Emerging Market Equities from BlackRock (£82.4m) and Wellington (£147.5m) plus an additional £11m of cash to WPP Emerging Market Equity (£240.9m)

Note 13 A – Reconciliation of movements in investments and derivatives

	Market value 1st April 2021	Purchases during the year	Sales during the year	Take ons during the year	Take offs during the year	Change in market value	Market value 31st March 2022
	£000	£000	£000	£000	£000	£000	£000
Investment Assets							
Pooled Funds							
Multi asset credit	250,378	5,842	0	0	0	(10,188)	246,032
Diversified growth funds	231,022	0	(143)	0	0	42,241	273,120
Liability Driven Investment	500,832	0	(1,624)	0	0	96,868	596,076
Hedge Fund of Funds	145,594	0	(185)	0	0	12,573	157,982
Global equity	231,367	2,031	(14)	0	0	29,911	263,295
Emerging Market Equity	231,836	240,924	(230,949)	0	0	(21,021)	220,789
Other investments							
Pooled property investments	132,870	4,582	(9,195)	0	0	18,068	146,325
Private equity and joint venture funds	193,497	24,639	(59,574)	0	0	42,960	201,521
Infrastructure funds	106,609	13,133	(16,254)	0	0	21,233	124,721
Timber and Agriculture	17,555	0	(5,544)	0	0	2,114	14,125
Private Debt	52,967	8,077	(12,588)	0	0	4,136	52,592
Impact / Local	58,170	16,513	(19,232)	0	0	23,881	79,332
	2,152,698	315,740	(355,302)	0	0	262,776	2,375,910
Cash deposits	67,282						109,860
Currency Loss	0					(67)	
Amount receivable for sales	2,812					0	
Total investment assets	2,222,792					262,709	2,485,770

	Market value 1st April 2020	Purchases during the year	Sales during the year	Take ons during the year	Take offs during the year	Change in market value	Market value 31st March 2021
	£000	£000	£000	£000	£000	£000	£000
Investment Assets							
Pooled Funds							
Multi asset credit	182,263	242,843	(208,286)	0	0	33,558	250,378
Diversified growth funds	346,996	284	(171,334)	0	0	55,076	231,022
Liability Driven Investment	317,546	39,768	(31,007)	0	0	174,525	500,832
Hedge Fund of Funds	140,663	0	(160)	0	0	5,091	145,594
Global equity	140,136	110,733	(76,187)	0	0	56,685	231,367
Emerging Market Equity	100,300	71,467	(1,789)	0	0	61,858	231,836
Other investments							
Pooled property investments	126,651	6,453	(14,923)	12,059	0	2,630	132,870
Private equity and joint venture funds	226,849	12,952	(29,062)	0	(63,821)	46,579	193,497
Infrastructure funds	112,156	15,352	(5,580)	0	(12,733)	(2,586)	106,609
Timber and Agriculture	19,914	0	(2,675)	0	0	316	17,555
Private Debt	40,911	2,154	(5,492)	17,190	0	(1,796)	52,967
Impact	0	7,018	(15,105)	47,305	0	18,953	58,171
	1,754,384	509,024	(561,600)	76,554	(76,554)	450,889	2,152,698
Cash deposits	20,238						67,282
Amount receivable for sales	0						2,812
Total investment assets	1,774,622						2,222,792

Note 13b – Analysis by Fund Manager

2020/21			2021/22	
£000	%		£000	%
Pooled Investments				
367,437	17.1%	Russell Investments	596,583	25.1%
196,791	9.1%	Blackrock (Passive)	133,533	5.6%
564,228	**26.2%**		**730,116**	**30.7%**
Investments managed outside Wales Pension Partnership				
500,832	23.3%	Insight	596,076	25.1%
231,021	10.7%	Mobius	273,120	11.5%
149,353	6.9%	Wellington	0	0.0%
145,594	6.8%	MAN Group	157,982	6.7%
561,670	26.1%	Private Markets	618,616	26.0%
1,588,470	**73.8%**		**1,645,794**	**69.3%**
2,152,698	**100%**		**2,375,910**	**100%**

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK. Where the table above shows a holding of greater than 5% but the manager does not appear in the list below this is because investments are held in more than one fund.

2020/21 £000	%	Manager	Holding	2021/22 £000	%
500,832	24	Insight	LDI Active 22 Fund	596,076	25

Note 13c – Stock Lending

The Fund's Investment Strategy sets the parameters for its stock lending programme. The Fund participates in stock lending through its investments with WPP. At 31 March 2022 the total value of all WPP stock on loan was £430,743,792. Total net revenue during 2021/22 was £1,101,659 of which the Clwyd Pension Fund received £47,992.

Note 14 – Derivatives

No derivative instruments were held by Clwyd Pension Fund at 31 March 2022 or 31 March 2021.

Note 15 - Fair value of investments

Fair Value – Basis of valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

Investments and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - where quoted market prices are not available, valuation techniques are used to determine fair value based on observable data.

Level 3 – where at least one input that could have a significant effect on the investment's valuation is not based on observable market data.

The valuation basis for each category of investment asset is set out below.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Pooled Investment Vehicles	Level 1	Quoted market bid price on the relevant exchange	Not required	Not required
Infrastructure	Level 1	Published bid price ruling on the final day of the accounting period	Not required	Not required
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Amounts receivable from	Level 1	Carrying value is deemed to be fair value because of the short-term nature	Not required	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
investment sales		of these financial instruments		
Investment debtors and creditors	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Unquoted equity investments	Level 2	Average of broker prices	Evaluated price feeds	Not required
Unquoted fixed income bonds and unit trusts	Level 2	Average of broker prices	Evaluated price fees	Not required
Unquoted pooled fund investments	Level 2	Average of broker prices	Valued net of unrealised gains/losses on hedging	Internal rate of return
Pooled property funds and hedge funds where regular trading takes place	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Hedge Fund	Level 2	Valued monthly using closing bid price where bid and offer prices are published or closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled Property Funds and hedge funds	Level 3	Valued by investment managers on a fair value basis each year using PRAG guidance	NAV-based pricing set on a forward pricing basis	Valuations are affected by any changes to the value of the

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
where regular trading does not take place				financial instrument being hedged against
Other unquoted and private equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

The fund has determined that the valuation methods described above for level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022 and 31 March 2021.

2021/22	Potential variation in fair value[1] %	Value at 31st March £000	Potential value on increase £000	Potential value on decrease £000
Other investments				
Pooled property investments	14.1	132,233	150,878	113,588
Private equity and joint venture funds	25.0	201,521	251,901	151,140
Infrastructure funds	15.0	114,553	131,736	97,370
Timber and Agriculture	8.7	14,125	15,354	12,896
Private Debt	10.6	52,592	58,167	47,017
Impact/ Local	25.0	79,332	99,165	59,499
		594,356	707,201	481,510

1. The percentages used in this note were reviewed and agreed in 2021/22 by the Fund consultant.

2020/21	Potential variation in fair value[1] %	Value at 31st March £000	Potential value on increase £000	Potential value on decrease £000
Other investments				
Pooled property investments	10	121,401	133,541	109,261
Private equity and joint venture funds	10	193,496	212,846	174,147
Infrastructure funds	10	91,550	100,705	82,395
Timber and Agriculture	7	17,555	18,783	16,326
Private Debt	10	52,968	58,265	47,671
Impact/ Local	10	58,171	63,988	52,353
		535,140	588,127	482,153

Note 15a – Fair Value of hierarchy

The following table shows the position of the Fund's assets at 31st March 2022 based on the Fair Value hierarchy:

Values at 31st March 2022	Quoted market price £000	Using observable inputs £000	Significant observable inputs £000	Total £000
Investment Assets				
Pooled Funds				
Multi Asset Credit		246,032		246,032
Diversified growth funds		273,120		273,120
Liability Driven Investment		596,076		596,076
Hedge Fund of Funds		157,982		157,982
Global equity		263,295		263,295
Emerging Market Equity		220,789		220,789
Other investments				
Pooled property investments		14,092	132,233	146,325
Private equity and joint venture funds			201,521	201,521
Infrastructure funds	10,168		114,553	124,721
Timber and Agriculture			14,125	14,125
Private Debt			52,592	52,592
Impact/Local			79,332	79,332
	10,168	1,771,386	594,356	2,375,910
Cash deposits	109,860			109,860
Total investment assets	120,028	1,771,386	594,356	2,485,770

Values as at 31st March 2021	Quoted market price £000	Using observable inputs £000	Significant observable inputs £000	Total £000
Investment Assets				
Pooled Funds				
Multi Asset Credit		250,378		250,378
Diversified growth funds		231,021		231,021
Liability Driven Investment		500,832		500,832
Hedge Fund of Funds		145,594		145,594
Global equity		231,366		231,366
Emerging Market Equity	149,353	82,484		231,837
Other investments				
Pooled property investments		11,469	121,401	132,870
Private equity and joint venture funds			193,496	193,496
Infrastructure funds	9,099	5,962	91,550	106,610
Timber and Agriculture			17,555	17,555
Private Debt			52,968	52,968
Impact/Local			58,171	58,171
	158,451	1,459,107	535,140	2,152,698
Cash deposits	67,282			67,282
Amounts receivable for sales	2,812			2,812
Total investment assets	228,546	1,459,107	535,140	2,222,792

Note 15b: Reconciliation of Fair Value measurements within level 3

	Value at 31st March 2021	Take Ons	Take offs	Purchases	Sales	Unrealised gains and losses	Realised gains and losses	Value at 31st March 2022
Other Investments								
Pooled property investments	121,401	0	0	4,582	(7,796)	11,314	2,731	132,233
Private equity and joint venture funds	193,496	0	0	24,639	(56,121)	16,221	23,286	201,521
Infrastructure funds	91,550	0	0	12,678	(15,501)	19,578	6,248	114,553
Timber and Agriculture	17,555	0	0	0	(5,412)	648	1,334	14,125
Private Debt	52,968	0	0	8,077	(12,413)	3,960	0	52,592
Impact/Local	58,171	0	0	16,513	(17,064)	15,470	6,242	79,332
	535,140	0	0	66,489	(114,307)	67,191	39,841	594,356

	Value at 31st March 2020	Take Ons	Take offs	Purchases	Sales	Unrealised gains and losses	Realised gains and losses	Value at 31st March 2021
Other Investments								
Pooled property investments	115,468	12,059	0	6,453	(14,923)	(1,271)	3,615	121,401
Private equity and joint venture funds	226,849	0	(63,821)	12,952	(29,062)	35,189	11,390	193,496
Infrastructure funds	97,293	0	(12,733)	15,352	(5,580)	(5,350)	2,567	91,550
Timber and Agriculture	19,913	0	0	0	(2,675)	305	12	17,555
Private Debt	40,911	17,190	0	2,154	(5,492)	(1,796)	0	52,968
Impact/Local	0	47,305	0	7,017	(15,105)	18,520	434	58,171
	500,433	76,555	(76,555)	43,928	(72,836)	45,596	18,019	535,140

Note 16 - Classification of Financial Instruments

2020/21 Fair Value through profit and loss £000	2020/21 Loans and receivables £000	2020/21 Financial liabilities at amortised cost £000		2021/22 Fair Value through profit and loss £000	2021/22 Loans and receivables £000	2021/22 Financial liabilities at amortised cost £000
			Financial Assets			
			Pooled Funds			
250,378			Multi asset credit	246,032		
231,022			Diversified growth funds	273,120		
500,832			Liability Driven Investment	596,076		
145,594			Hedge Fund of Funds	157,982		
231,367			Global equity	263,295		
231,836			Emerging Market Equity	220,789		
			Other investments			
132,870			Pooled property investments	146,325		
193,497			Private equity and joint venture funds	201,521		
106,609			Infrastructure funds	124,721		
17,555			Timber and Agriculture	14,125		
52,967			Private Debt	52,592		
58,171			Impact/ Local	79,332		
30,204	37,078		Cash	30,215	79,645	
	2,812		Other investment balances		0	
	417		Debtors		392	
2,182,902	40,307	0		2,406,125	80,037	0
			Financial liabilities			
		(451)	Creditors			(543)
2,182,902	40,307	(451)		2,406,125	80,037	(543)

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The table above analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

Note 17 – Nature and extent of risks arising from Financial Instruments

Procedures for Managing Risk

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows. The fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Clwyd Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations, then reviewed regularly to reflect changes in activity and market conditions.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis, and manage any identified risk in two ways:

- The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels.
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2022/23, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Assets exposed to price risk	Value	3 year volatility range	Value on increase	Value on decrease
	£000	%	£000	£000
As at 31 March 2021	**2,219,980**	**8.86%**	**2,416,656**	**2,023,304**
As at 31 March 2022	**2,485,821**	**8.30%**	**2,692,134**	**2,279,508**

Interest rate risk

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points (1%) from one year to the next and experience suggests that such movements are likely.

Interest rate risk – sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/– 1% change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Assets exposed to interest rate risk	Value	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
As at 31 March 2021	**317,660**	**314,483**	**320,837**
As at 31 March 2022	**951,968**	**877,556**	**1,047,329**

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be not more than 15%. A 15% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows.

Assets exposed to currency risk	Value	% change	Value on increase	Value on decrease
	£000	%	£000	£000
As at 31 March 2021	**1,415,871**	**6.52%**	**1,508,167**	**1,323,575**
As at 31 March 2022	**1,011,606**	**16.29%**	**1,176,427**	**846,785**

The table above shows the unhedged FX exposures within the portfolio, note the Fund has FX exposures elsewhere within the portfolio but these are hedged back to sterling to remove the FX risk.

Credit risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the fund to incur a financial loss. Assets potentially affected by this risk are investment assets, cash deposits and third-party loans. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The pension fund has not experienced any actual defaults in recent years. All contributions due at 31 March 2022 were received in the first months of the financial year.

Liquidity Risk

Liquidity risk is the risk that the fund will not be able to meet its financial obligations as they fall due. The Committee monitors cashflows regularly during the year, and as part of the triennial funding review, and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2022, liquid assets were £1,782m representing 75% of total fund assets (£1,617m at 31 March 2021 representing 75% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

Refinancing risk

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

Note 18 – Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. The valuation is not carried out on the same basis as that used for setting fund contributions and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes.

2020/21		2021/22
£m		£m
3,352	Present value of promised retirement benefits	3,401
(2,223)	Fair value of scheme assets	(2,486)
1,129	**Total**	**915**

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates. Other key assumptions used are:

2020/21		2021/22
%		%
2.70	Inflation/pension increase rate assumption	3.30
3.95	Salary increase rate	4.55
2.10	Discount rate	2.80

Note 19 – Current Assets

2020/21		2021/22
£000		£000
254	**Long-term debtors**	294
	Short-term debtors	
942	Contributions due - Employees	1,642
3,624	Contributions due - Employers	4,882
397	Prepayments	389
96	Sundry debtors	49
5,059	**Total Short-term debtors**	**6,962**
5,313	**Total**	**7,256**

Note 20 – Current Liabilities

2020/21 £000		2021/22 £000
(131)	Contributions received in advance	(170)
(1,083)	Benefits payable	(1,234)
(8)	Administering authority	(7)
(11)	HMRC	(17)
(664)	Sundry creditors	(803)
(1,897)	**Total**	**(2,231)**

Note 21 - Additional Voluntary Contributions (AVCs)

Clwyd Pension Fund has engaged two additional voluntary contribution (AVC) providers: Prudential Assurance Company Ltd and Utmost Life and Pensions Limited. The value of the funds invested with both AVC providers are shown below. AVCs paid directly to the Prudential are shown below.

In accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

2020/21 £000		2021/22 £000
595	Contributions in the year	**1,089**
	Value of AVC funds at 31 March:	
5,442	Prudential	6,551
346	Utmost (formerly Equitable Life)	300
5,788	**Total**	**6,851**

Note 22 – Agency Services

Clwyd Pension Fund pays discretionary awards to former employees of the current unitary authorities, Coleg Cambria and some other employers. Amounts paid are fully reclaimed from the employer bodies.

2019/20 £000		2020/21 £000
475	Conwy County Borough Council	453
1,653	Denbighshire County Council	1,579
3,000	Flintshire County Council	2,916
19	Powys County Council	18
2,040	Wrexham County Borough Council	1,954
55	Coleg Cambria	51
41	Other employers	49
7,283	**Total**	**7,020**

Note 23 - Related Party Transactions

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2022, four Members of the Clwyd Pension Fund Committee had taken this option, with two being in receipt of a pension.

Two of the four Co-opted Members of the Pension Fund Committee are eligible to receive fees in relation to their specific responsibilities as members of the Committee in the form of an attendance allowance that is in line with that adopted by Flintshire County Council.

Flintshire County Council

During the year Flintshire County Council incurred costs of £2.1m (£1.8m in 2020/21) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The costs have been included within Oversight & Governance costs and administration expenses at Note 11.

Key Management Personnel

The key management personnel of the Fund are the Chair of the Pension Fund Committee, the Flintshire Chief Executive and the Flintshire S.151 officer. Total benefits attributable to key management personnel are set out below:

2020/21 £000		2021/22 £000
20	Short-term benefits	20
56	Post-employment benefits	5
76	**Total**	**25**

Note 24 - Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2022 were £188m (31 March 2021: £179m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the impact, private debt, private equity, property and infrastructure parts of the portfolio. The amounts ‘called’ by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

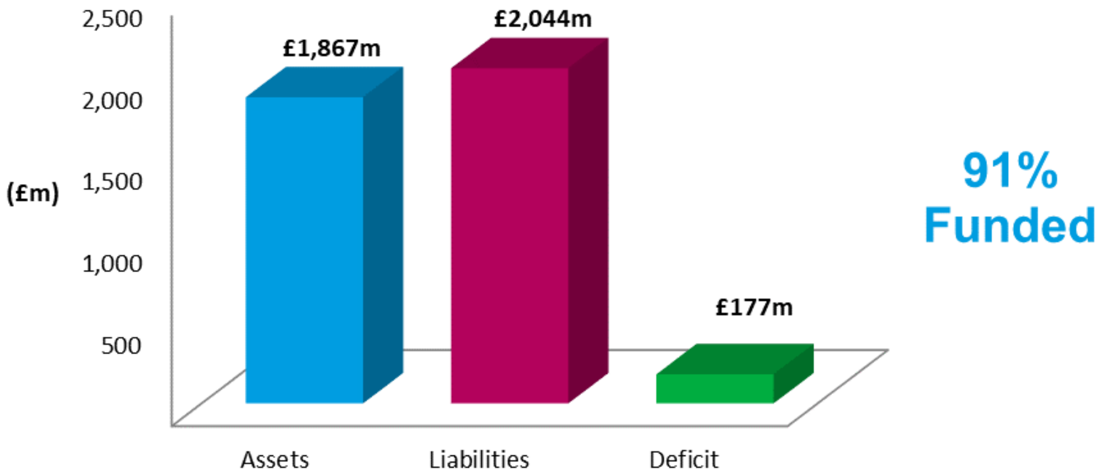
Note 25 Clwyd Pension Fund

Accounts for the year ended 31 March 2022 - statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Clwyd Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £1,867 million represented 91% of the Fund's past service liabilities of £2,044 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £177 million.



The valuation also showed that a Primary contribution rate of 17.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the Funding Strategy Statement (FSS), where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the last actuarial valuation the average recovery period adopted was 13 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) was an addition of approximately £16m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS and includes the estimated costs in relation to McCloud judgement where appropriate), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	4.15% per annum	4.65% per annum
Rate of pay increases (long term)*	3.65% per annum	3.65% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014 .

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment was an increase in past service liabilities of broadly £9 million and an increase in the Primary Contribution rate of 0.5% of Pensionable Pay per annum as at the last valuation. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund average secondary rate shown above).

Impact of Covid 19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review and will be considered further as part of the 2022 valuations currently ongoing. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Contributions will be reviewed and updated as part of the 2022 valuation. In addition the Administering Authority has the power to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority, who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of promised retirement benefits for the purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.3% per annum
Rate of pay increases*	3.95% per annum	4.55% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.4% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was predominantly offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £3,352 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£70 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£55 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also a decrease in liabilities of £76 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £3,401 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to, a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman	**Fellow of the Institute and Faculty of Actuaries**
Mark Wilson	**Fellow of the Institute and Faculty of Actuaries**

Mercer Limited

August 2022

Statement Of Responsibilities For The Statement Of Accounts

The Council's Responsibilities

The Council is required to :-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, this is the Corporate Finance Manager as Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

Signed:

Cllr Ted Palmer

Chair of the Pension Committee

Date: 23 November 2022

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's statement of accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code").

In preparing this statement of accounts, the Chief Finance Officer has :-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Chief Finance Officer has also :-

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of accounts presents a true and fair view of the financial position of the Council at 31st March 2022, and its income and expenditure for the year then ended.

Signed:

Gary Ferguson CPFA

Corporate Finance Manager (Chief Finance Officer)

Date: 23 November 2022

Audit Report

The independent auditor's report of the Auditor General for Wales to the members of Flintshire County Council as administering authority for Clwyd Pension Fund

Appendix 8 - Financial Report

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Introduction

This report includes financial monitoring reports for the year 2021/22 showing both cash flow and income and expenditure compared to budget. It also details the contributions from employers and employees, and shows further information on contributions, assets, investment income and management fees.

The Fund's financial processes and activities are scrutinised by both Internal and External Audit which helps reduce the risk of errors and fraud. The Fund receives reports from Flintshire County Council Internal Audit Team and Audit Wales and acts appropriately in respect of any recommendations.

Cash Flow 2021/22

The Fund operates a rolling three year cash flow which is estimated and monitored on a quarterly basis. There are several unknowns within the cash flow such as transfers in and out of the fund and also drawdowns and distributions across the Fund's Private Market portfolio for which the current strategic allocation was 27% of the Fund. Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period. The following table shows a summarised final cash flow for 2021/22. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

2021/22	Budget	Actual	Variance
	£000	£000	£000
Opening Cash	**(29,760)**	**(37,078)**	
Payments			
Pensions	66,600	66,794	194
Lump Sums & Death Grants	16,000	17,158	1,158
Transfers Out	6,000	4,459	(1,541)
Expenses (excluding investments)	5,480	5,047	(433)
Tax Paid	100	73	(27)
Support Services	180	173	(7)
Total Payments	**94,360**	**93,704**	**(656)**
Income			
Employer Contributions	(49,000)	(49,897)	(897)
Employee Contributions	(17,000)	(17,530)	(530)
Employer Deficit Payments	(15,000)	(14,383)	617
Transfers In	(6,000)	(6,957)	(957)
Pension Strain	(1,200)	(1,482)	(282)
Income	(40)	(13)	27
Total Income	**(88,240)**	**(90,262)**	**(2,022)**
Cash-flow Net of Investment Income	**6,120**	**3,442**	**(2,678)**
Investment Income	(8,000)	(11,635)	(3,635)
Investment expenses	4,000	6,162	2,162
Total Net of In House Investments	**2,120**	**(2,031)**	**(4,151)**
In House Investments			
Draw downs	66,175	66,941	(766)
Distributions	(69,203)	(117,117)	47,914
Net Expenditure /(Income)	**(3,028)**	**(50,176)**	**47,148**
Total Net Cash-Flow	**(908)**	**(52,207)**	**51,299**
Movement to/from Managers	**0**	**9,640**	**(9,640)**
Closing Cash	**(30,668)**	**(79,645)**	

3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2025. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which currently looks to produce an overall return of 5.6% per annum.

	2022/23 £000	2023/24 £000	2024/25 £000
Opening Cash	**(79,645)**	**(69,070)**	**(9,221)**
Payments			
Pensions	68,400	70,000	72,000
Lump Sums & Death Grants	16,000	16,000	16,000
Transfers Out	6,000	6,000	6,000
Expenses (excluding investments)	6,800	5,800	5,800
Tax Paid	100	100	100
Support Services	200	200	200
Total Payments	**97,500**	**98,100**	**100,100**
Income			
Employer Contributions	(49,000)	(52,400)	(52,400)
Employee Contributions	(17,200)	(17,600)	(17,600)
Employer Deficit Payments	(15,000)	0	0
Transfers In	(6,000)	(6,000)	(6,000)
Pension Strain	(1,200)	(1,200)	(1,200)
Income	(40)	(40)	(40)
Total Income	**(88,440)**	**(77,240)**	**(77,240)**
Cash-flow Net of Investment Income	**9,060**	**20,860**	**22,860**
Investment Income	(8,000)	(8,000)	(8,000)
Investment expenses	4,000	4,000	4,000
Total Net of In House Investments	**5,060**	**16,860**	**18,860**
In House Investments			
Draw downs	103,661	130,150	149,000
Distributions	(98,146)	(87,161)	(78,302)
Net Expenditure /(Income)	**5,515**	**42,989**	**70,698**
Total Net Cash-Flow	**10,575**	**59,849**	**89,558**
Rebalancing Portfolio	**0**	**0**	**(90,000)**
Closing Cash	**(69,070)**	**(9,221)**	**(9,663)**

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2021/22 compared to 2020/21. Management fees overall have increased primarily due to the increase in the underlying assets and performance fees from Private Market investments. Other significant changes were due to agreed additional project work in relation to Private Markets.

	Actual 2020/21 £000	Actual 2021/22 £000	Variance 2020/21 To 2021/22 £000
Governance Expenses			
Employee Costs	261	299	38
Support & Services Costs (Internal Recharges)	22	23	1
IT	1	0	(1)
Other (Transport, Supplies & Services)	54	65	11
Audit Fees	39	41	2
Actuarial Fees	504	493	(11)
Consultant Fees	847	1,066	219
Pooling (Consultants and Host)	101	144	43
Advisor Fees	576	533	(43)
Legal Fees	16	113	97
Pension Board	106	101	(5)
Total Governance Expenses	**2,527**	**2,878**	**351**
Investment Management Expenses			
Fund Manager Fees	16,924	19,490	2,566
Custody Fees	69	106	37
Performance Monitoring Fees	67	53	(14)
Pooling (Operator and FM costs)	304	998	694
Total Investment Management Expenses	**17,364**	**20,647**	**3,283**
Administration Expenses			
Employee Costs	1,091	1,242	151
Support Services Costs (FCC Recharges)	150	150	0
Premises	6	0	(6)
IT (Direct or External charged Services)	426	488	62
Other (Supplies & Services etc)	119	102	(17)
Outsourcing	42	41	(1)
Total Administration Expenses	**1,834**	**2,023**	**189**
Employer Liaison Team			
Direct Costs	199	218	19
Total Employer Liaison Team	**199**	**218**	**19**
Total Costs	**21,924**	**25,766**	**3,842**

The following table shows actual costs for 2021/22 compared to the budgeted costs along with the budget for 2022/23. Overall costs were broadly in line with expected. Actuarial and consultancy fees were lower than expected as were administration expenses overall due to vacant posts.

	Actual 2021/22 £000	Budget 2021/22 £000	Variance 2021/22 £000	Budget 2022/23 £000
Governance Expenses				
Employee Costs	299	326	(27)	397
Support & Services Costs (Internal Recharges)	23	24	(1)	24
IT	0	5	(5)	5
Other (Transport, Supplies & Services)	65	97	(32)	95
Audit Fees	41	41	0	45
Actuarial Fees	493	696	(203)	879
Consultant Fees	1,066	1,142	(76)	1,627
Pooling (Consultants and Host)	144	130	14	197
Advisor Fees	533	485	48	517
Legal Fees	113	40	73	100
Pension Board	101	91	10	113
Total Governance Expenses	**2,878**	**3,077**	**(199)**	**3,999**
Investment Management Expenses				
Fund Manager Fees	19,490	19,915	(425)	16,275
Custody Fees	106	32	74	112
Performance Monitoring Fees	53	53	0	53
Pooling (Operator and FM costs)	998	636	362	500
Total Investment Management Expenses	**20,647**	**20,636**	**11**	**16,940**
Administration Expenses				
Employee Costs	1,242	1,366	(124)	1,433
Support Services Costs (FCC Recharges)	150	158	(8)	158
Premises	0	0	0	0
IT (Direct or External charged Services)	488	515	(27)	715
Other (Supplies & Services etc)	102	134	(32)	146
Outsourcing	41	30	11	0
Total Administration Expenses	**2,023**	**2,203**	**(180)**	**2,452**
Employer Liaison Team				
Direct Costs	218	286	(68)	363
Total Employer Liaison Team	**218**	**286**	**(68)**	**363**
Total Costs	**25,766**	**26,202**	**(436)**	**23,754**

Employers participating in the Fund at 31 March 2022

Contributions

55 bodies contributed to the Fund during 2021/22, 33 scheduled and 22 admitted. Contributions are paid to the Fund by the 19th of the month following the month they relate to. Employer and employee contributions, (including deficit payments) received during 2021/22 are shown in the following table, as is the rate of contribution as a percentage of pensionable pay.

3 new bodies have joined the Fund during 2021/22, all of which are admitted bodies and 3 bodies also ceased participation in the year (also admitted bodies) i.e. at 31 March 2022. 52 participating employers remain. No bonds or any other secured funding arrangements have been facilitated.

Scheduled bodies	Employer Contributions £	%	Employee contributions £	Avg %*
Flintshire County Council	16,892,218	17.6	5,903,248.6	6.2
Wrexham County Borough Council	15,037,128	18.2	5,094,473	6.2
Denbighshire County Council	11,469,135	17.3	4,150,733	6.3
Coleg Cambria	2,541,826	16.5	986,700	6.5
North Wales Fire Service	921,044	17.0	374,173	6.9
Glyndwr University	1,399,723	17.1	555,478	6.8
North Wales Valuation Tribunal	27,396	18.9	11,664	8.0
Rhyl Town Council	22,677	18.7	8,999	7.4
Hawarden Community Council	43,894	21.8	14,221	7.1
Prestatyn Town Council	31,591	21.5	9,286	6.3
Mold Town Council	23,226	18.5	8,136	6.5
Coedpoeth Community Council	18,351	20.4	5,406	6.0
Rhos Community Council	17,332	21.6	4,871	6.1
Holywell Town Council	15,913	20.1	4,475	5.7
Buckley Town Council	21,583	26.6	5,105	6.3
Caia Park Community Council	22,485	20.8	6,405	5.9
Denbigh Town Council	6,581	18.5	2,244	6.3
Offa Community Council	12,070	26.3	2,807	6.1
Shotton Town Council	8,704	29.4	1,924	6.5
Cefn Mawr Community Council	6,331	12.2	2,653	5.1
Acton Community Council	5,797	22.9	1,513	6.0
Flint Town Council	4,545	17.5	1,688	6.5
Gresford Town Council	3,724	21.9	973	5.7
Ruthin	5,167	16.0	1,873	5.8
Marchwiel Community Council	4,173	23.1	1,047	8.6
Penyffordd Community Council	2,696	16.4	953	5.8
Hope Community Council	2,248	16.4	754	5.5
Broughton & Bretton	3,507	21.9	917	5.7

Bagillt Community Council	1,880	17.2	601	5.5
Northop Town Council	1,778	21.7	451	5.5
Gwernymynydd Community Council	1,738	28.8	332	5.5
Argoed Community Council	2,148	17.6	671.35	5.5
Connah's Quay Town Council	15,549	17.8	4,960.54	5.7
Total Scheduled bodies	**48,594,158**		**17,169,738**	

Admitted bodies	**Employer Contributions £**	**%**	**Employee contributions £**	**Avg %***
Newydd Catering & Cleaning Ltd	560,379	21.8	145,759	5.7
Denbighshire Leisure	824,478	16.8	298,245	6.1
Aura Leisure & Libraries Ltd	622,945	18.7	206,856	6.2
Careers Wales	277,900	18.5	96,597	6.5
Civica UK	211,048	20.9	65,979	6.5
Home Farm Trust Ltd	116,269	20.1	34,337	5.9
Freedom Leisure	135,083	21.7	38,832	6.3
Holywell Leisure Ltd	48,144	18.1	16,102	6.1
Glyndwr Students Union	22,711	11.5	12,532	6.3
Aramark Ltd	14,508	18.8	4,321	5.6
Cartref NI	13,319	20.6	3,935	6.1
Hafan Deg (KL Care)	5,380	23.0	1,332	5.7
Churchills	6,090	19.6	1,709	5.5
Dolce	7,171	21.7	1,818	5.5
Denbigh Youth Group	6,850	24.6	7,810	28.0
Bodelwyddan Castle Trust	540	18.3	162	5.5
Morgan LLwyd	1,062	20.6	287	5.6
Cartref y Dyffryn Ceiriog	17,565	25.2	4,184	6.0
Midshire Signature Services Ltd	817.55	25.5	176.34	5.5
Theatre Clwyd Music Trust	102,231	19.5	31,979	6.1
Theatre Clwyd Trust	266,457	18.4	93,088	6.4
Aramark Ltd B	62,402	24.4	14,592	5.7
Total Admitted bodies	**3,323,352**		**1,080,630**	
Total contributions	**51,917,510**		**18,250,368**	

*For some employers, the employee contribution figures include contributions towards Additional Pension Contracts (APCs) in addition to the regular % contributions payable. In some instances, the payment of APCs can distort the average implied employee rate given the relative size of the contributions paid.

We are able to charge interest on overdue contributions during the financial year. During the year the Fund encountered some issues with some of the new employers within the Fund. These were monitored for timeliness of contributions and the Fund liaised with employers to overcome any problems they were experiencing. The analysis below shows the number of late contributions made to the Fund, along with the amounts and occasions concerned.

The Fund did not exercise its option to charge interest to any of the employers during the year but the occurrences were registered in the Fund's breaches register and reported to the Pension Fund Committee. The total of all late payments was £3,824 (0.007% of the total employer contributions).

Employer	Late Occasions	Contributions (£)
A	3	1,247
B	1	1,074
C	2	1,023
D	2	481

Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2022.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	220,789	263,295	484,084
Alternatives	254,006	364,610	431,102	1,049,718
Bonds & LDI	596,076	0	246,032	842,108
Property (Direct)	0	0	0	0
Cash	109,860	0	0	109,860
Total	**959,942**	**585,399**	**940,429**	**2,485,770**

The alternatives portfolio comprises pooled investments in the following asset classes:

Hedge Fund Managed Account, Diversified Growth Funds and Private Markets which includes, Property, Private Debt, Private Equity & Impact/Local, Infrastructure, Timber and Agriculture.

Investment Income

The table below provides an analysis of the Fund's investment income received as at 31 March 2022.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	1,486	6,043	7,529
Alternatives	5,684	8,064	0	13,748
Bonds & LDI	0	0	2,254	2,254
Property (Direct)	0	0	0	0
Cash	58	0	0	58
Total	**5,742**	**9,550**	**8,297**	**23,589**

Fund Manager Expenses (including underlying fees)

The fees which are disclosed in the statement of accounts within the Annual Report have been disclosed in accordance with the CIPFA guidance which states that fees and expenses should only be included where the Fund has a direct relationship with the investment manager. These fees include the annual management charge as well as additional costs such as operational, administrative and legal expenses. In addition any costs for performance and transaction fees are also disclosed. These are disclosed in Note 11 in the Fund's accounts.

Fees relating to underlying managers are not required to be disclosed in the accounting regulations, however the Fund believes we should provide our stakeholders with information on all fees relating to our investments.

The Fund has exposures to underlying managers through investments in alternative mandates including Hedge Funds, the Tactical Asset Portfolio and Private Markets.

The table below shows the fees and expenses which would have been disclosed if underlying fees and their performance fees were included.

The table also shows an average of the basis points charged for each category of fee for the valuation of core assets, non-core assets and total fund.

Fund Management Fees	**Avg bps**	**21/22 £000**	**Avg bps**	**20/21 £000**
CORE (74% of Fund)	**54**	**9,526**	**58**	**9,202**
Total expenses including AMC	17	2,946	18	2,928
Underlying Fees (includes performance and transaction fees)	30	5,295	28	4,460
Performance Fees	0	0	0	0
Transaction Fees	7	1,285	11	1,814
NON CORE (26% of Fund)	**302**	**18,643**	**260**	**14,579**
Total expenses including AMC	182	11,239	167	9,372
Underlying Fees (includes performance and transaction fees)	39	2,386	37	2,094
Performance Fees	71	4,399	48	2,674
Transaction Fees	10	619	8	439
Total underlying fees	32	7,681	30	6,554
Total direct fees	86	20,488	80	17,227
Total fees	**118**	**28,169**	**110**	**23,781**
Net Assets (Core)		1,757,294		1,591,028
Net Assets (Non-Core)		618,616		561,670
Total Net Assets (excluding cash)		**2,375,910**		**2,152,698**

Assets within the "Core" disclosure include: Active Equities, Unconstrained Fixed Income, Liability Driven Investment, Hedge Fund Managed Account Platform, Diversified Growth Funds and the Tactical Asset Portfolio. These account for 74% (74% in 2020/21) of the Fund assets but only 34% (39% in 2020/21) of the total fees. Assets within the "Non-Core" disclosure include: Private Debt, Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 26% (26% in 2020/21) of the Fund assets the proportion of fees amounts to 66% (61% in 2020/21). These figures include the underlying fees. In comparison, excluding underlying fees, the proportion of fees for core assets is 21% (28% in

2020/21) and non-core, 79% (72% in 2020/21). Many of the Fund's managers are now signed up to the Cost Transparency Initiative (CTI) and are providing fees through the CTI template.

Movement in Current Assets and Current Liabilities

There was an increase in current assets of £1,743k in 2021/22, which is due to the timing of the receipt of employer/employee contributions in April 2022. Current liabilities increased by £334k, primarily as a result of an increase of benefits payable due and an increase in the amounts due to Sundry Creditors. The benefits payable figure is volatile as it is affected by the amount of lump sums and death grants due but not paid on 31st March.

Wales Pension Partnership (WPP)

The WPP was established in 2017 with the objective to deliver:

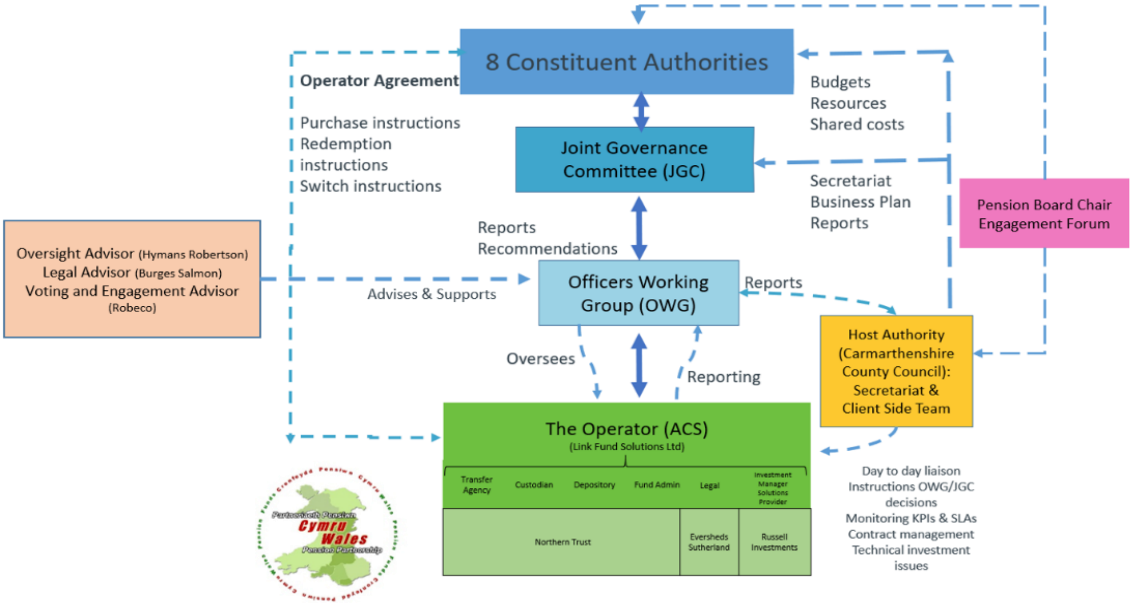
- economies of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure

The WPP is one of the eight Local Government Pension pools nationally and is a collaboration of the eight LGPS funds in Wales including Cardiff and the Vale of Glamorgan, Clwyd, Dyfed, Greater Gwent (Torfaen), Gwynedd, Powys, Rhondda Cynon Taff and Swansea. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for the Welsh funds pre-dating the Government's pooling initiative.

Collective investment management offers the potential for investment fee savings, opportunities to broaden investment portfolios, enhanced voting and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

WPP's operating model is designed to be flexible and deliver value for money. WPP appointed an external fund Operator and makes use of external advisers to bring best of breed expertise to support the running of the Pool. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities.

Governance



The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA) which was approved by all eight Constituent Authorities in March 2017. The IAA defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers and includes a Scheme of Delegation outlining the decision-making process. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure:

The eight Constituent Authorities of the WPP are:

- Carmarthenshire County Council (Host)
- City and County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough

CouncilThe Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving the WPP's

Business Plan, which outlines the WPP's budget and work plan, as well at its Beliefs and Objectives.

The Joint Governance Committee (JGC) oversees and reports on the WPP and is comprised of one elected member from each of the eight Constituent Authorities.

The OWG provides support and advice to the Joint Governance Committee and is comprised of practitioners and Section 151 officers from all eight Constituent Authorities.

Carmarthenshire County Council is the Host Authority for the WPP and is responsible for providing administrative and secretarial support to the JGC and the OWG, and liaising day to day with the Operator on behalf of all of the Welsh LGPS funds.

Link Fund Solutions (Operator) carries out a broad range of services for the WPP, which includes facilitating investment vehicles & sub-funds, performance reporting, transition implementation and manager monitoring and fee negotiations. There is an Operator Agreement in place which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The JGC and OWG, with the support of Hymans Robertson, oversee the work that Link Fund Solutions carries out on behalf of the WPP. Link engages with the Constituent Authorities by:

- Direct engagement – attendance at annual committee meetings
- Indirect engagement – with CAs collectively, through the JGC and OWG

In collaboration with Link Fund Solutions, Russell Investments provide investment management solution services to the WPP and they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles.

Northern Trust is the Depository for the WPP ACS vehicle and provides numerous services including securities lending, fund administration, compliance monitoring and reporting.

Hymans Robertson are WPP's Oversight Advisor and their role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support.

Burges Salmon are WPP's legal advisors and they provide legal advice in relation to FCA regulated funds, tax and governance arrangements, including assisting with complex procurement processes.

Robeco UK has been appointed as WPP's Voting and Engagement provider and are responsible for implementing the Voting Policy across WPP's portfolio and undertaking engagement activity on behalf of the WPP.

Bfinance were appointed in 2021/22 to oversee the procurement of an Allocator for future WPP private market investments. The initial procurement exercise has resulted in the appointment of managers for private credit, open ended and closed ended infrastructure. The procurement exercise for private equity is ongoing and the property procurement will commence in the autumn of 2022.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies. The WPP, in consultation with the Constituent Authorities, has developed a set of governing policies. In all instances the WPP's policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP's key policies, registers and plans are listed below and can be found on the WPP website.

Responsible Investment has been a key priority for the WPP since it was established in 2017. Various activities have been undertaken to work towards WPP's ambition of becoming a leader in Responsible Investment. Initially the focus was on formulating a Responsible Investment Policy and since then the WPP has formulated its own Climate Risk Policy and has worked with its Voting and Engagement Provider, Robeco, to agree a Voting Policy. A WPP RI Sub-Group has been established to take ownership of RI related workstreams and actions that are required to achieve the commitments made in the WPP's RI and Climate Risk Policies.

The WPP's Business Plan, Governance Manual and all other policies detailed in the chart above can be found on the WPP website:

https://www.walespensionpartnership.org/

Risk

Risk management is a critical element of WPP's commitment to good governance. The WPP has developed a structured, extensive and robust risk strategy which seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

WPP maintains a Risk Register which is reviewed regularly by a dedicated Risk Sub-Group which reports back to the OWG and JGC on a quarterly basis.

Training

The WPP has its own training policy and develops an annual training plan which is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

It is best practice for WPP personnel to have appropriate knowledge and understanding of:

- The regulations and market relating to pensions;

- The pooling of Local Authority Pension Schemes;
    - Relevant investment opportunities.

In accordance with the approved training plan, the following training was available to both Committee and Board members during 2021/22.

Topic	Product Knowledge	Date
Private Markets	Asset Classes & Implementation, Fund Wrappers & Governance	21/4/2021
Responsible Investment	Responsible Investment Indices and Solutions, Responsible Investment Reporting	20/07/2021
Investment Performance & Risk Management	Performance Reporting & Manager Benchmarking. Roles and Responsibilities with the ASC.	18/09/2021
Guidance, Regulatory and Best Practice	Good Governance & Cost Transparency	19/01/2022

Pooling progress to date

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. The WPP have made significant progress towards delivering on this objective. The launching of the WPP's three active equity sub-funds in 2019/20, five fixed income sub-funds in 2020/21 and the Emerging Markets sub-fund in 2021/22, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 72% of assets.

As at 31 March 2022, WPP has total assets worth £23.1bn, £16.6bn of which sits within the pool, see breakdown below:

Asset Class	Managed by	Launch Date	31 March 2022 £000	%
Global Growth Equity Fund	Link Fund Solutions	February 2019	3,303,494	14.3
Global Opportunities Equity Fund	Russell Investments	February 2019	3,387,940	14.7
UK Opportunities Equity Fund	Russell Investments	September 2019	730,278	3.2
Emerging Markets Equity Fund	Russell Investments	October 2021	464,615	2
Global Credit Fund	Russell Investments	July 2020	757,659	3.3

Asset Class	Managed by	Launch Date	31 March 2022 £000	%
Global Government Bond Fund	Russell Investments	July 2020	507,273	2.2
UK Credit Fund	Link Fund Solutions	July 2020	574,224	2.5
Multi-Asset Credit Fund	Russell Investments	July 2020	723,184	3.1
Absolute Return Bond Fund	Russell Investments	September 2020	509,605	2.2
Passive Investments	BlackRock	March 2016	5,599,927	24.2
Investments not yet pooled			6,534,711	28.3
Total Investments across all 8 Pension Funds			**23,092,910**	**100**

Investment assets split between Clwyd Pension Fund and WPP (see note 13B to the accounts)

	31 March 2022 £000	%
Global Opportunities Equity Fund	129,762	5.2
Global Multi Asset Credit	246,032	9.9
Emerging Market Equity Fund	220,789	8.9
Passive Equities	133,533	5.4
Investments not yet pooled	1,755,654	70.6
Total Investment Assets	**2,485,770**	**100**

The above table summarises Clwyd Pension Fund's investment in the WPP, together with the assets that remain under the direct oversight of the Fund. During the year an additional £240.9m transitioned to the WPP portfolio. The table above shows the assets currently managed by the pool as at 31 March 2022.

Pooling costs

Carmarthenshire County Council, as the Host Authority for the Wales Pension Partnership is responsible for providing administrative and secretarial support and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The WPP budget is included in the WPP Business Plan and approved annually by all eight Constituent Authorities.

The Host Authority and External Advisor costs, the running costs are funded equally (unless specific projects have been agreed for individual Funds) by all eight of the Constituent Authorities and recharged on an annual basis. The amount recharged to the Clwyd Pension Fund for the financial year ending 31 March 2022 was £134.7k, see table below.

In addition to the running costs, there are also transition costs associated with the transition of assets into the pool, these costs can be categorised in terms of direct and indirect costs. Direct costs include the costs of appointing a transition manager to undertake the transition, together with any additional oversight of this process undertaken from a research and reflection perspective. Indirect costs include both explicit and implicit costs, such as commissions, spread and impact and opportunity costs known as Implementation Shortfall. Transition costs are directly attributable to the assets undergoing the transition and are therefore deducted from their net asset value as opposed to a direct charge to the Fund.

Details of the costs incurred by the Clwyd Pension Fund in respect of the WPP are detailed below.

2020/21 £000	WPP pooling costs	2021/22 £000
19	Host Authority Costs *	20
70	External Advisor Costs *	114
113	Transition Costs (Direct) **	0
202	**Total**	**134**

* Host Authority and External Advisor costs are recharged directly to the fund
** Transition Costs (Direct) costs are shared as a proportion of total AUM.

Ongoing Investment Management Costs

The table below discloses the investment management costs split between those held by the WPP (including the passive equities) and those held outside of the WPP.

	Fees charged £000				
	Total Expenses including AMC	Performance Fees	Transaction Costs	Custody	Total
Asset Pool					
Direct	390	0	622	67	1,079
Indirect (Underlying)	1,108	0	0	0	1,108
Total	**1,498**	**0**	**622**	**67**	**2,187**
bps	21	0	9	1	30

Non Asset Pool					
Direct	13,795	4,399	1,282	39	19,515
Indirect (Underlying)	3,365	2,781	427	0	6,573
Total	**17,160**	**7,180**	**1,709**	**39**	**26,088**
bps	104	44	10	0	159
Fund Total	**18,658**	**7,180**	**2,331**	**106**	**28,275**
bps	79	30	10	0	119

Asset Allocation and performance

The following table shows how each of the investment mandates has performed during the year, with opening and closing values and one year performance included net of fees where available. In addition, the table splits out investments under pooled arrangements with the WPP and those that remain under non-pooled investment arrangements with the Fund’s legacy managers as at 31st March 2022

	Opening Value £000	%	Closing Value £000	%	Net Performance %	Local Target %
Pool Assets						
Global Equities Passive	114,307	5.1	133,533	5.4	**16.8**	**16.5**
Emerging Market Equities Passive*	82,484	3.7	0	0.0	**-**	**-**
Emerging Market Equities Active**	0	0	220,789	8.9		
Global Equities Active	117,059	5.3	129,762	5.2	**11.0**	**14.6**
Bonds Active	250,378	11.3	246,032	9.9	**-2.1**	**4.1**
Total Pool Assets	**564,228**	**25.4**	**730,116**	**29.4**		
Non- Pool Assets						
Emerging Market Equities (Core) Active	77,686	3.5	-		**-**	**-**
Emerging Market Equities (Local) Active	71,667	3.2	-		**-**	**-**
Diversified Growth	231,021	10.4	273,120	11.0	**20.3**	**8.8**
Liability Driven Investment	500,832	22.6	626,291	25.2	**17.9**	**17.9**
Hedge Funds	145,594	6.6	157,982	6.4	**8.5**	**3.6**
Property	132,870	6.0	147,325	5.9	**16.9**	**23.9**
Private Equity	251,667	11.3	201,521	8.1	**36.0**	**5.1**
Local/ Impact	-	-	79,332	3.2	**40.3**	**5.1**
Infrastructure	106,610	4.8	124,721	5.0	**22.3**	**5.1**
Private Debt	52,968	2.4	52,592	2.1	**18.1**	**7.5**
Timber & Agriculture	17,555	0.8	14,125	0.6	**6.1**	**5.1**
Cash***	67,282	3.0	79,645	3.2		
Total Non-Pool assets	**1,655,752**	**74.6**	**1,755,654**	**70.6**		
Total assets	**2,219,980**	**100**	**2,485,770**	**100**	**13.3**	

Note: Performance shown for the 12 months to 31 March 2022.

* The Fund invested into the Fund to October 2021, hence 12 month performance is not available.

**The Fund invested into the Fund in October 2021, hence 12 month performance is not available.

***Cash represents cash in the bank account.

Securities Lending

Securities lending commenced in March 2020. Revenue is split on an 85:15 basis between WPP and Northern Trust with all costs for running the securities lending programme taken from Northern Trust's share of the fee split. A minimum of 5% of the nominal quantity of each individual equity holding is held back and a maximum of 25% of total AUM is on loan at any one time. Total revenue of LF Wales Revenue during 2021/22 was £1,296,016 (gross) / £1,101,659 (net) of which the Clwyd Pension Fund received £47,992 with £430,743,792 out on loan as at 31 March 2022.

More detailed information can be found in WPP's Annual Return which is published on the WPP website - https://www.walespensionpartnership.org/

Responsible Investment

Responsible Investment ("RI") continues to be a key priority for the Welsh Constituent Authorities. In 2020/21 WPP worked towards drafting and agreeing a Climate Risk Policy – this outlines the unified climate risk beliefs and what measures we have adopted to manage climate risk within the WPP Sub-Funds. In August 2020, a dedicated WPP RI Sub-Group was established in recognition of the important of this subject matter. The Sub-Group meets twice a quarter and is responsible for progressing any RI related workstreams. The RI Sub-Group has already demonstrated its effectiveness and efficiency by delivering on one of the main commitments made in both the WPP's RI and Climate Risk Policies – the development of reporting that allows the WPP to monitor and manage RI and Climate Risk risks. The sub group now receives detailed RI and Climate Risk monitoring reports for each of the WPP's Sub-Funds on a quarterly basis.

In 2022 the WPP established its approach as a responsible investor involving oversight and monitoring of its voting policy, the establishment of an engagement framework, Environmental, Social and Governance (ESG) metrics monitoring and reporting output in accordance with the requirements namely the Task Force on Climate Related Financial Disclosures (TCFD). This guidance is currently out for consultation.

(TCFD - A description of the governance-related arrangements of an organisation to measure and managing climate-related risks and opportunities. A description of the processes in place for measuring and managing climate-related risks and opportunities).

Objectives 2022/23

Following the launch of a number of sub-funds to date, progress continues to be made with significant rationalisation of the existing range of mandates. The operator/allocators will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the eight constituent funds and facilitate a significant move of the assets to be pooled.

Private Market Sub Funds

In establishing the WPP pool, the prime focus has been on pooling the most liquid assets, namely equities and fixed income. In July 2021, the Joint Governance Committee appointed bfinance as WPP's Allocator Advisors and they will assist the WPP with the identification of Private Markets Allocators for the Private Market Asset Classes.

New Sub Fund – Sustainable Equity

Russell Investments, the funds appointed Investment Managers were tasked in 2021/22 to build a bespoke sustainable equity sub-fund to provide a framework for WPP's proposed exclusions to include:

- Diversified fund exposure
- Alignment to WPP sustainability goals including Net Zero alignment and a clear climate focus.
- Multi-channel approach to engagement and commitment to deliver reporting outcomes aligned with the Sustainable Development Goals (SDGs).
- To offer flexibility to evolve as the WPP's requirements change, or as the sustainable themes develop further. Utilising Russell's Enhanced Portfolio Implementation (EPI).

The final proposed sub-fund structure was discussed at OWG in May 22 and was approved at the JGC in July 22.

A transition timetable has been provided below:

Investment Portfolio	**Timeline for Launch / Implementation**
Sustainable Equities	Launch due by the end of 2022
Private Debt / Infrastructure	Launch due before the end of 2022/23
Private Equity	Launch scheduled for early 2023/24

Other Objectives

During 2021/22, the WPP published its first annual Stewardship Report and has been accepted as a signatory to the 2020 UK Stewardship Code. During 2022/23 the WPP hopes to enhance its approach as a responsible investor further with the establishment of an engagement framework, enhancing reporting in accordance with the requirements of the UK Stewardship Code and the Taskforce on Climate-Related Financial disclosure (TCFD) and to continue reviewing existing sub-fund mandates to ensure compatibility with WPP's Responsible Investment and Climate Risk Beliefs.

There will also be a focus on the review and development of additional WPP policies, as well as the provision of timely and relevant training facilitated by the pool for the benefit of its wider stakeholder groups.

Other 2021/22 Updates

JCG Scheme Member Representative

In November 2021, the Inter Authority Agreement was amended to reflect the changes required to support the appointment of Scheme Member JGC representatives.

The interviews took place in February 2022 and the following appointments were made :

- SMR – Osian Richards
- Deputy SMR – Ian Guy

Pooling Risks

The following risk table identifies two frequently monitored risks from a Fund perspective when managing the arrangements in place through transitioning assets into the WPP.

Risk Identified	Potential Consequences	Risk Score Range	Controls / Mitigation
Financial losses experienced during the process of transitioning Fund assets into the Wales Pension Partnership (WPP) pool.	Poorly executed transitions of pension assets could result in high trading costs or loss of Net Asset Value in the short-term.	High	• The WPP and its constituent authorities take professional and timely advice from its advisors to ensure it is undertaking transition activity within an appropriate market environment. • A reconciliation of assets transferred to the pool is undertaken by the investments team following each transition. • A detailed report from the appointed transition experts commissioned by the WPP will be produced following each transition to provide added assurance to constituent Funds and their elected members.
Investment pooling with the Wales Pension	The WPP fails to deliver long-term investment returns	High	• Substantial governance arrangements are in place

Risk Identified	Potential Consequences	Risk Score Range	Controls / Mitigation
Partnership (WPP) fails to deliver long-term investment returns.	beyond what the Fund would have expected to generate had pooling not occurred. This would result in a longer payback period on the initial investment envisaged, and the likelihood of needing to increase employer contribution rates as a result in order to ensure pension liabilities are fully funded in the future.		at both officer (Officer Working Group) and shareholder (Joint Governance Committee) levels. • Both the WPP and the constituent authorities take professional external advice on the opportunities for investment through the contractual relationship with Link Fund Solutions and Russell Investment advisors. • The WPP, together with constituent authorities, monitor the performance of investments and hold Link and Russell to account as necessary.

Whilst the risk score range attributable to the above is categorised as high, the Fund is comfortable with the level of mitigation in place in which to manage them. The Fund recognises that the process of transitioning assets will continue for a number of years and so this risk will continue to be monitored as appropriate until such time that we feel it can reduced to an acceptably low level or removed altogether. The risk of the WPP failing to deliver long-term performance remains high as this underpins the justification for pooling collaboration generally. As such, this risk is likely to remain in place for the foreseeable future. However, as the WPP continues to establish itself and the governance arrangements mature it is expected that this level of risk will be reduced to an acceptable level.

Section 3 - Annual Governance Statement

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Roles and Responsibilities

Flintshire County Council (the Council) is responsible for administering the Clwyd Pension Fund (the Fund), on its own behalf and on behalf of 2 other local authorities (Wrexham and Denbighshire) and 52 other large and small employers in North East Wales.

The main activities involved in managing the Fund are to make and manage investments and to administer the payment of scheme benefits. This is carried out in accordance with the requirements of the Local Government Pension Scheme (LGPS) Regulations 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Public Service Pensions Act 2013.

The Council is responsible for ensuring that all its business, including that of the Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and that there are proper arrangements to use money economically, effectively and efficiently. The Council is also required to ensure that the Fund is managed to deliver best value.

Governance & Delegation

The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council's operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

To help ensure that the governance framework is robust, the Council has developed a Local Code of Corporate Governance (the Code) which defines the principles that underpin the governance of the organisation and is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. The Code forms part of the Council's constitution and is available on the Council's website. The operation of the Fund is governed by this code. The Council produces its own Annual Governance Statement which reviews the effectiveness of its control environment.

The Fund has its own Governance Policy in place. This policy sets out the Fund's governance arrangements, including its governance structure and operational procedures for the delegation of responsibilities. It also sets out the Fund's aims and objectives relating to its governance. In accordance with the requirements of the Public Services Pensions Act 2013, the Fund has established a Local Pension Board (the Board) to act as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the Fund effectively.

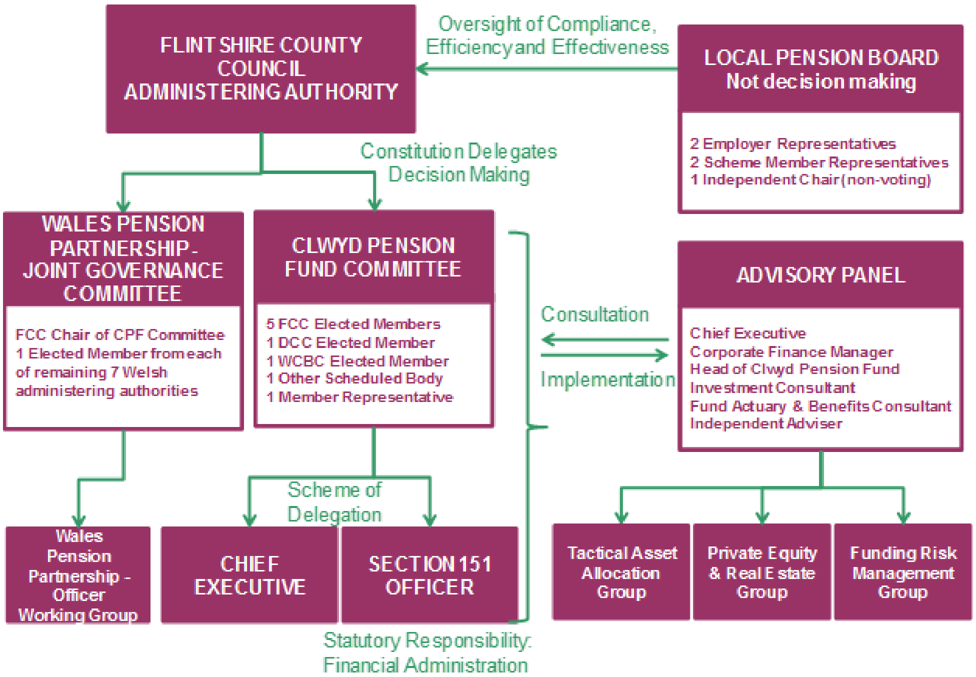
The Council discharges its duty as administering authority by delegation to the Clwyd Pension Fund Committee (the Committee). The Committee is made up of 5 of the Council's own councillors and 4 co-opted members, representing the other 2 local authorities, other employers and the scheme members. The Committee receives advice from the Clwyd Pension Fund Advisory Panel (the Panel) which is made of up of officers of the Council and advisors to the Fund.

The Council's Chief Executive has overall responsibility for the activities of the Fund. This includes ensuring that the arrangements for the investment of assets, the receipt of contributions and the payment of benefits are properly managed.

The Council's Corporate Finance Manager as Section 151 Officer is responsible for arranging the proper administration of the financial affairs of the Fund. He is CIPFA qualified and is suitably experienced to lead the finance function.

In addition, under an inter-authority agreement, there is delegation to the Wales Pension Partnership Joint Governance Committee to reflect the move to the pooling of pension fund assets across the 8 Welsh LGPS pension funds.

The governance structure for the Fund is shown below. The bodies to which responsibility is formally delegated are supported by the Board, and also an Advisory Panel and a number of working groups.



Strategy & Policy

The LGPS regulations require the Fund to maintain a number of strategy and policy documents which are available on its website. Key amongst these are the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Strategy Statement, and Administration Strategy. These documents describe the Fund's objectives together with the main risks facing the Fund and the key controls which mitigate them.   In addition, the Fund has a Business Plan, Breaches Procedure, Risk Policy, Conflicts of Interest Policy and Knowledge and Skills Policy which support the governance framework.

Use of financial data

- Financial data is used and managed by the Fund in a number of different ways:

- There is a triennial actuarial valuation which determines long term cash flows, fund liabilities and contributions**.** In addition, monthly funding projections are also produced by the actuary to help the Fund keep abreast of its funding position.
- Detailed investment records are held and maintained by external partner investment managers including the Wales Pension Partnership (WPP) and the Fund's global custodian. There is quarterly performance reporting to the Fund of the position on investments.
- Economic and market forecast data is used to inform the Fund's investment strategy, which is designed to support the requirements of the Fund's funding strategy.
- The Fund prepares an annual statement of accounts, a business plan (including a budget and cash flow) and financial monitoring reports. The Fund uses the Council's Masterpiece financial ledger system to maintain its financial information.
- The Fund uses the Altair management system to manage the payment of benefits to beneficiaries. Payments to beneficiaries are made through the Council's bank account and are transferred immediately from the Pension Fund's bank account. Annual Benefit Statements are prepared and distributed to members. The Fund has a Member Self Service system, which allows members of the Fund to access their own membership information.

Annual audit reports and statements of internal control are obtained from the investment managers by the Fund and are reviewed by officers to provide assurance that the investments are managed in an adequate control environment. Any significant issues that these reports disclose are reported to the Committee on an exception basis.

Risk Management

The Fund recognises that effective risk management is an essential element of good governance. The Fund has an effective policy and risk management strategy which:

- Demonstrates best practice
- Improves financial management
- Minimises the effect of adverse conditions
- Identifies and maximises opportunities that might arise
- Minimises threats.

Risks relating to pension funds are often outside the Fund's control. The Fund's risk management focuses on measuring the current risk against the Fund's agreed target risk and identifying further controls and actions that can be put in place. These actions are then implemented as part of the day to day management or through the Fund's Business Plan.

The risks currently identified as key risks are shown in the section of the Fund's Annual Report which deals with Governance, Training and Risk Management (Appendix 1).

Review of effectiveness

The Committee is responsible for ensuring the continued effectiveness of the governance framework and system of internal control within which the Fund operates. In discharging this responsibility it relies on the assurances of officers, financial monitoring and other reports, the work of internal audit and the work of the external auditors.

The Board assists the Committee in securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the scheme, and with ensuring the effective and efficient governance of the Fund.

The Fund has in place an Independent Advisor, part of whose role is to carry out an annual review which is included in the Fund's Annual Report (Appendix 2).

The Fund's Annual Report includes a governance compliance statement (Appendix 3). This measures the extent to which the Fund's governance arrangements comply with statutory guidance.

As part of his duties, the Corporate Finance Manager ensures that the Council receives an internal audit of the control environment of the Council and the Fund. The audit coverage reviews the control environment within which the Fund operates and helps to ensure that robust arrangements are in place to:

- Safeguard the contributions made by employees and employers used to fund the pension liabilities
- Ensure control is maintained over partner investment managers who are responsible for ensuring that funds are maximised in order to meet liabilities
- Ensure that accurate and timely payment is made to retired members and beneficiaries of the Fund.

Update on significant governance issues previously reported

There were no significant governance issues in 2021/22 specific to the Fund.

Significant governance issues

The Head of Internal Audit has confirmed that there are no significant governance issues relating to the Fund which need to be reported as a result of the work undertaken by Internal Audit on the control systems of either the Council or the Fund.

The impact of COVID-19 on governance

The COVID-19 pandemic resulted in a number of necessary changes to the way the Fund operated in 2020/21 e.g. virtual meetings / remote working etc. Whilst generally restrictions eased in 2021/22 the Fund has continued to operate in a similar manner. In particular, the Fund's Committee and Pension Board continued to meet virtually throughout 2021/22.

Internal Audit Opinion

Based on the audit work undertaken for the Council and the assurances provided by the Chief Executive, the Corporate Finance Manager and the Head of Clwyd Pension Fund, it is the Head of Audit's opinion that key controls were generally operating effectively during 2021/22 but key objectives could be better achieved with some relatively minor adjustments.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance which operate on the Clwyd Pension Fund. Work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2021/22 to provide reasonable and objective assurance that any significant risks impacting the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate their impact.

Neil Cockerton	Councillor Ted Palmer
Chief Executive	Chair Clwyd Pension Fund Committee
23 November 2022	23 November 2022

Section 4 - Glossary

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Active member:

A current employee who is paying contributions to the Fund.

Actuary:

An independent professional who advises the Administering Authority on the financial position of the Fund. Every three years the Actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates - both to meet the cost of any future benefit accrual, and also rectify any difference in assets and liabilities for accrued benefits.

Additional Voluntary Contributions (AVC):

An option available to active members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

Administering Authority:

Flintshire County Council is the Administering Authority of the Clwyd Pension Fund and is responsible for managing and administering the LGPS in relation to its members. This includes maintaining and investing the Fund's assets.

Admitted Body:

An organisation who has entered into a service agreement with a Scheme employer. Flintshire County Council, as the Administering Authority, and the relevant parties to the service agreement enter into an admission agreement to allow the staff who transferred to the new organisation to participate in the LGPS.

Alternatives:

An alternative investment is an asset that is not one of the conventional investment types, such as stocks, bonds and cash. Alternative investments include private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts

Asset Allocation:

The apportionment of a fund's assets between different types of investments (or asset classes). The asset allocation is monitored on a regular basis depending on the agreed tolerances set out in the Investment Strategy. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives.

Benchmark:

A measure against which the investment policy or performance of an investment manager can be compared.

Consumer prices index (CPI)

CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. Pension increases in the LGPS are linked to the annual change in CPI. Currently CPI is lower than RPI (see RPI comment below).

CPIH

This is a broader measure of inflation based on CPI including owner occupiers' housing costs.

Corporate Bonds

Fixed interest securities and index-linked securities issued by companies registered either in the UK or overseas. They represent 'loans' to the companies which are repayable on a stated future date (for definitions of "fixed interest" and "index-linked" see 'Fixed Interest Government Securities' and 'Index-linked Government Securities').

Custodian

This is a financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange.

Deferred Members:

Scheme members who have left employment or ceased to be an active member of the Scheme whilst remaining in employment, but retain an entitlement to a pension from the Scheme.

Direct property

Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.

Diversified Growth Funds (DGF):

An alternative way of investing in shares, bonds, property and other asset classes.

Employer Contribution Rates:

The percentage of the salary of members that employers pay as a contribution towards the members' pension.

Equities:

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Equity risk premium

Also referred to as simply equity premium, this is the excess return that investing in the stock market provides over a risk-free rate, such as the return from government treasury bonds. This excess return compensates investors for taking on the relatively higher risk of equity investing.

Fixed Interest Securities:

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Funding Strategy Statement

This is a formal document setting out how the Administering Authority will determine employers' contributions to the Fund and how it will manage its funding risks. The statement should be kept under review, at least every three years with any amendments being subject to consultation with stakeholders.

Hedge Funds

Also known as "absolute return funds', these funds have as their objective a performance target expressed as a margin above the return which can be achieved on cash deposits.

Index:

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Indexed-Linked Government Securities

Investments in government stocks (UK and overseas) where both the annual interest payment and the capital sum repayable by the Government are adjusted to allow for inflation. Investments in government stocks which are repayable on a stated future date.

Investment Strategy Statement

This is a formal document setting out the Administering Authority's objectives and attitude to investment risk and sets out what the long term investment strategy will be i.e. how the Fund's assets will be distributed among different asset classes. The statement should be kept under review, at least every three years with any amendments being subject to consultation with stakeholders.

Liability Driven Investment (LDI)

LDI is a risk management strategy that aims to mitigate the Fund's exposure to interest rate and inflation risks.

Market Value

The price at which an investment can be bought or sold at a given date.

Multi Asset Credit

The price at which an investment can be bought or sold at a given date.

Passive Investing (Indexation)

An investment strategy whereby the manager replicates an index in order to generate a rate of return in line with the index. The manager has no discretion over stock selection within the index. If it is a multi-asset portfolio, the asset proportions are prescribed within the mandate.

Pooled Funds:

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Private equity

Private equity is the ownership of companies that are not listed on a public stock exchange.

Retail Price Index (RPI)

A measure of the general level of inflation based on the change in the price of a fixed basket of goods and services, such as food, energy, petrol, travelling costs, mortgage interest payments and Council Tax. From 2030 onwards, the calculation of RPI will be more closely aligned with that of CPIH.

Return:

The total gain from holding an investment over a given period, including income and any increase or decrease in market value

Risk Management Framework

The Fund has established a framework with the aim of providing stability of funding and employer contribution rates in the long term. The framework includes the following strategies that seek to manage a variety of financial risks - Funding Level Monitoring, Liability Hedging, Synthetic Equities, Currency Hedging, Collateral Management, Realisation of Investments, Cash Management and Stock Lending.

Scheduled Body:

An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

Unrealised Gains/Losses:

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

Wales Pension Partnership (WPP)

An investment pool comprising of the Welsh LGPS Funds. WPP is one of eight LGPS investment pools in England and Wales. LGPS investment pools aim to increase pension fund investment efficiency and make it easier to access more asset classes.

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Section 5 - Regulatory Documents

Clwyd Pension Fund Annual Report 2021/22

The attached regulatory documents form part of the Governance and Performance framework within which the Fund operates. Other best practice documents are also available on Clwyd Pension Fund website. A list of these documents and the website address is available on the contents page of the report.

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Audit of Accounts Report – Clwyd Pension Fund

Audit year: 2021-22

Date issued: November 2022

Document reference: 3241A2022

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

We intend to issue an unqualified audit report on your Accounts. There are no issues to report to you prior to their approval.

Audit of Accounts Report

Introduction

1 We summarise the main findings from our audit of your 2021-22 annual report and accounts in this report.

2 We have already discussed these issues with the Deputy Head of the Pension fund.

3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of ‘materiality’. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.

4 We set this level at £24.917 million for this year’s audit.

5 There are some areas of the accounts that may be of more importance to the reader. We have set a lower materiality level for Related Party disclosures relating to Key Management Personnel of £1,000.

6 We have now substantially completed this year’s audit.

7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year’s audit

8 The COVID-19 pandemic has had a continuing impact on how our audit has been conducted. We summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year’s audit process.

Exhibit 1 – impact of COVID-19 on this year's audit

Timetable	• Officers provided us with the draft annual report including the accounts on 9 September 2022. This complies with regulatory deadlines. • We expect your audit report to be signed on 28 November 2022.
Electronic signatures	For approval and signing of the financial statements, we will accept electronic signatures and electronic transfer of files.
Audit evidence	As in previous years, we received the majority of audit evidence in electronic format. We have continued to use various techniques to ensure its validity: • use of encrypted secure e-mails to share documents; • establishing a secure remote file transfer portal to safely share information; • some information was verified to screen prints or to the live systems via screen sharing; and • video conferencing has enabled the audit team to correspond effectively with the finance team throughout the audit.

Proposed audit opinion

9 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.

10 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

11 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

12 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

13 There are no misstatements identified in the accounts which remain uncorrected.

Corrected misstatements

14 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3.**

Other significant issues arising from the audit

15 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

Recommendations

We intend to hold a post projection learning exercise with key staff to identify an action plan to further improve the accounts production and audit process for future years.

Appendix 1

Final Letter of Representation

Audited body's letterhead

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects the Clwyd Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of the uncorrected misstatement identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by the Pension Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Pension Fund Committee on 23 November 2022.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:	Signed by:
Gary Ferguson	Ted Palmer
Corporate Finance Manager	Chair of Clwyd Pension Fund Committee
Date: 23 November 2022	Date: 23 November 2022

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the members of Flintshire County Council as administering authority for the Clwyd Pension Fund

Opinion on financial statements

I have audited the financial statements of the Clwyd Pension Fund for the year ended 31 March 2022 under the Public Audit (Wales) Act 2004. Clwyd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to the Clwyd Pension Fund's policies and procedures concerned with:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following area: management override; and
- Obtaining an understanding of the Clwyd Pension Fund's framework of authority as well as other legal and regulatory frameworks that the Clwyd Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Clwyd Pension Fund.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Pension Fund Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the administering authority; and

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Clwyd Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the Clwyd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Adrian Crompton
Auditor General for Wales

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of Corrections Made

During our audit, we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
Note 13 'Investment Assets' increased by £1,303,469: • Total investment assets increased from £2,484,467,000 to £2,485,770,000. Note 13A 'Reconciliation of movements in investments and derivatives' was amended: • Change in market value increased from £261,406,000 to £262,709,000. This has also impacted on the following: • Closing net assets of the scheme increased to £2,490,785,000. • Net assets of the fund available to fund benefits at the end of the reporting period has increased to £2,490,785,000.	To increase the investment values disclosed in the accounts in line with valuations received from investment managers.	To ensure the accounts fully comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.
Note 6 'Post Balance Sheet Events' Disclosure updated.	The amendment was to disclose the impact on the investments held by the Pension Fund of the changes in the economic environment since 31 March 2022.	To ensure the accounts fully comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.
There have also been a number of minor amendments and disclosure updates as a result of our work.		

Archwilio Cymru
Audit Wales

Audit Wales

24 Cathedral Road

Cardiff CF11 9LJ

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Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Phillip Latham
Head of the Clwyd Pension Fund / Pennaeth Cronfa Bensiynau Clwyd

Appendix 3

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Date: 23 November 2022

Name: Gary Ferguson

Tel no: 01352702271

Email: gary.ferguson@flintshire.gov.uk

Dear Sir/Madam,

Final Letter of Representation

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of Clwyd Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting ; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance, and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Clwyd Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements;
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators, or others;
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Representations by the Pensions Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Pension Committee on 23 November 2022.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Gary Ferguson

Corporate Finance Manager

23 November 2022

Signed by:

Councillor Ted Palmer

Chair of Clwyd Pension Fund Committee

23 November 2022

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 23rd November 2022
Report Subject	Draft Funding Strategy Statement
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The LGPS Regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The draft FSS (attached as Appendix 1) has been produced for consultation with employers. It incorporates the initial proposals on the funding strategy. Given the detail included the draft FSS has been streamlined for 2022 to make it easier for all parties to navigate to the key areas that are pertinent to them. The principal decision areas for the Committee in consultation with employers are the actuarial assumptions adopted, deficit and surplus recovery plans and the policies within the FSS which will determine the **minimum** contributions required. Employers have a responsibility to consider the appropriate level of contributions in the context of their own circumstances and reference to this is included in the draft FSS.

The draft FSS is based on preliminary information so will need to be finalised once the valuation analysis is complete. The consultation with employers will take place over December and the final FSS will be brought back to the February 2023 Committee for final approval. On the basis of the proposed assumptions, the provisional total Fund results show a funding level of 105% and a future service contribution rate of 18.7% of pay. The Actuary will present the main matters and decisions needed for approval of the FSS at the meeting along with the provisional total Fund results.

RECOMMENDATIONS	
1	The Committee approve the proposed key actuarial assumptions and funding parameters, in paragraphs 1.05 to 1.10 of the report, which will be incorporated into the Funding Strategy Statement.
2	The Committee approve the draft Funding Strategy Statement for consultation with employers (noting some information can only be included when the actuarial valuation is complete) and note the provisional results in paragraph 1.16.
3	The Committee delegates the refinement and finalisation of the draft FSS to the Head of Clwyd Pension Fund, before formal consultation with employers, having regard to the advice of the Fund Actuary.

REPORT DETAILS

1.00	**Draft Funding Strategy Statement and the Valuation**
1.01	**Draft Funding Strategy Statement** The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. In doing this, they must have regard to FSS guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.
1.02	The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation at 31 March 2022, together with the Administering Authority's policies in the areas where the Administering Authority has discretion to manage the funding position of the Fund. The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement. The draft includes reference to the current investment strategy objectives. These will be updated to reflect the agreed strategy and objectives emerging from the investment strategy review currently being undertaken. This review will take into account the actuarial assumptions and how they have changed since the valuation date so it is not expected there will be any changes to invalidate the proposed assumptions in the draft FSS.
1.03	As a matter of good governance, the FSS will also be reviewed on an annual basis to ensure it remains up to date with changing legislation or other requirements. Any material change would be brought to Committee for approval and employers would be consulted on the changes as necessary.
1.04	The draft FSS attached as Appendix 1 is based on preliminary valuation information. It can only be finalised once the valuation, consultation processes and associated analysis have been completed. The draft FSS has been streamlined for 2022 to make it easier for all parties to navigate. It will be formatted and translated in due course also. It incorporates the following key updates:
1.05	<u>CPI inflation assumption</u> A key assumption which drives the projected benefit cashflows (the Pension Fund liabilities) is the inflation rate. This is derived based on year on year projections based on market outlook and expectations from the Bank of England and represents the average inflation rate over a long period (50+ years). This is set by the Fund, based on advice from the Actuary and at this valuation the inflation assumption has increased to 3.1% p.a. at the valuation date which compares to 2.4% p.a. at the 2019 valuation. This reflects the increased inflation outlook at this valuation. The actual April 2023 increase to benefits is expected to be based on the September 2021 to September 2022 CPI inflation which was 10.1%. This is subject to confirmation by the Government. As part of the proposed valuation assumption we have

	also adjusted the benefit cashflows for the actual observed inflation over the 6 months from September 2021 to 31 March 2022.
1.06	<u>Discount Rate (average expected return) basis for past service liabilities (funding target)</u> A key assumption which drives the value of the Pension Fund liabilities (the future benefit payments) and therefore deficit is the discount rate. This is set by the Fund, based on advice from the Actuary, to reflect the overall investment return which the Fund expects to achieve on its assets over the long term with a suitable and necessary allowance for prudence. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the "real" investment return expected on the Fund assets). The discount rate reflects the "real" expected asset return above the CPI baseline assumption when assessing the long-term solvency target. This is a challenge for this valuation given the current significant increase in inflation which increases the liabilities as the benefits are inflation linked and potentially reduces the "real return" on assets. A judgement is needed as to how persistent this period of higher inflation could be, with the risk that understating its duration in this valuation will transpire into higher contributions at the next valuation in 2025 taking into account the material volatility we have seen since the valuation date. This is to ensure the right balance between affordability and sustainability of employer contributions is struck. The Actuary has proposed to reduce the expected level of real return above CPI by 0.25% from the 2019 valuation to CPI+1.50% per annum, to maintain an appropriate level of prudence (as in the probability of achieving the discount rate). This results in a gross discount rate of 4.6% p.a. (3.1% + 1.5%) at the valuation date.
1.07	<u>Discount Rate (average expected return) basis for future service liabilities</u> The future service liabilities (which determine an employer's Primary Contribution Rate) are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used to provide stability in the primary/future service contribution rate (as per the Regulations) and reflect the different characteristics of these liabilities. As future service contributions are paid in respect of benefits built up in the future, the future service contribution rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only. The Actuary's view is that the real return applied in 2019 could be too optimistic given the impact of inflation on investment returns and the

	challenging outlook since the valuation, and advises a discount rate of CPI +2.00% per annum be considered (a 0.25% reduction). This results in a gross discount rate of 5.1% p.a. (3.1% + 2.0%) at the valuation date.
1.08	<u>Pay Growth assumption (including increments)</u> Along with an employer's payroll, liabilities in relation to final salary benefits earned pre 2014 and the McCloud remedy are related to a members' final pay at retirement or leaving. The Fund therefore needs to make an assumption about future pay progression in the short and longer term. The long term pay growth is CPI+1.25% p.a. which is the same assumption as the 2019 valuation. In terms of short term pay growth over the 3 years from 1 April 2023, the intention is to adopt an average pay growth assumption option of either 3% p.a. or 4% p.a. depending on employer category. Employers will be given the option which best suits their circumstances. For the purpose of the provisional results in paragraph 1.16 of this report we have used a 4% p.a. assumption for all employers.
1.09	<u>Demographic Assumptions</u> The baseline and long-term trend in mortality has been adjusted to reflect the Fund's experience since 2019 and wider trends of the progression of life expectancy improvements. The analysis indicates that there has been a reduction in expected life expectancy versus the assumptions made at the 2019 valuation which has reduced the liabilities and future service rate. The proposed assumption would result in an overall life expectancy at age 65 as follows for sample members (disclosed 2019 valuation life expectancies in brackets): Male pensioner currently age 65: 21.5 years (22.4 years) Male active member currently age 45: 23.3 years (24.0 years) Female pensioner currently age 65: 23.9 years (24.8 years) Female active member currently age 45: 26.0 years (26.8 years) Some of the other demographic assumptions have also been changed at this valuation including the likelihood of a dependant's pension being paid and the level of pension being commuted for cash by members upon retirement. Both of these changes have marginally increased the liabilities and future service rate but not significantly compared to life expectancy and other factors.
1.10	<u>Recovery periods (surplus and deficit)</u> When determining an employer's Secondary Contribution Rate we require a period over which to recover any deficit or run down any surplus to target full solvency i.e. a 100% funding level. Where an employer is in deficit, there is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to a continuation of the 2019 deficit recovery plan. This would apply to employers, subject to covenant and affordability considerations as per the draft FSS. Where employers are in surplus (which is the majority at

	this valuation), the period over which the surplus can offset future contribution requirements will remain the same as the 2019 valuation (whether an employer was in deficit or surplus at that point). This approach supports the sustainability of future contributions along with the employers who choose to pay contributions above the minimum required as noted in paragraph 1.19.
1.11	<u>McCloud judgment</u> The McCloud discrimination case relates to the protections provided to members close to retirement when the Fund benefits were changed in 2014, and the case determined that those not close to retirement should be afforded the same protections (subject to meeting certain criteria). The costs of the remedy were not included in the 2019 valuation balance sheet (as they were unknown) although the estimated cost of a potential remedy was allowed for in employer contributions where employers opted for this. The Government has now set out how the remedy should be treated at the 2022 valuation to ensure consistency (as the remedy Regulations have yet to be passed into law). Therefore in line with this recommendation, the Fund's approach has been to include amendments for all employers in the 2022 valuation to reflect the McCloud remedy when valuing past service liabilities. The McCloud benefit window ended on 31 March 2022 and so the judgement does not affect employer future service (Primary) contribution rates at the 2022 valuation.
1.12	<u>Climate change funding level scenario analysis</u> An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate transition risks and physical risks on the potential funding outcomes. The impact of different scenarios at the whole Fund level versus the baseline (which assumes the funding assumptions are played out) is being considered as part of the valuation to ensure the funding strategy is sufficiently robust to the risks posed by climate change. This section of the FSS is not finalised as the Actuary has yet to complete the analysis.
1.13	<u>Other Fund policies</u> The only new policy in the 2022 FSS covers 'Notifiable Events'. It is best practice to have a defined set of notifiable events that employers are obliged to inform the Fund about as it may have a material effect on the covenant or the liability or membership profile. Whilst in most cases regular covenant updates will identify some of the key employer changes, under this new policy in some circumstances employers will be required to proactively notify the Administering Authority of any material changes. This policy sets out when this may happen and the notifiable events process. The existing policies have all been reviewed and streamlined to enable stakeholders to read and understand the information in a clearer and more concise way. However, the majority of the content remains unchanged (except to reflect the 2022 valuation updates such as assumption and date changes etc). We will also be reviewing the termination policy in light of the current gilt market volatility as referenced in the draft FSS.

1.14	There are some areas which need refinement due to information not yet being available e.g. the analysis in relation to the funding effect of climate change. It is recommended that the Head of Clwyd Pension Fund is given delegated powers to finalise the draft FSS having regard to advice from the Actuary, should there need to be any changes as a result of further development on these or similar matters. The Committee will be updated on the progress of these issues at the next Committee meeting.
1.15	Once the draft FSS has been approved by the Committee, the draft will be refined for any comments by the Head of Clwyd Pension Fund in conjunction with the Fund Actuary. The consultation with the Fund employers will then commence. Subject to the finalisation of the Regulations/guidance and the outcome of the employer consultation, the proposed final FSS incorporating the final assumptions and policies (including any changes post consultation) will be brought to the Committee for final approval at the February 2023 Committee.
1.16	**Provisional Valuation results** The final actuarial outcome will be reported to Committee at February 2023 meeting, however preliminary whole Fund results (based on the proposed assumptions in the draft FSS) are set out below:

	£m
Assets	2,490
Liabilities	2,365
Surplus	125
Average Funding Level	105%
Average Employer future service (Primary) contribution rate (% of pay)	18.7% p.a.

	These results will be subject to change as the valuation is completed for each employer – in particular any changes in the assumption for short term pay award (the results above assume an average pay award of 4% p.a. for the next 3 years). The equivalent 2019 valuation results were a funding level of 91% and a deficit of £177m. The equivalent average future service rate was 17.3% of pay. Overall the theoretical total average employer contributions are expected to fall at this valuation due to the improved funding position despite an increase in the future service rate. The outcomes will vary materially between employers although the major councils will broadly follow the total Fund.
1.17	Initial employer contribution results will be distributed to employers along with the draft FSS (once approved) and the consultation process will begin. Preliminary discussions have already taken place with the Steering Group of the three local authorities and with larger education employers as they represent the biggest proportion of the Fund's liabilities. Other employers will be offered 1:1 sessions with the Actuary after the AJCM.

1.18	The Fund's FSS, taking into account actuarial advice, aims to provide a framework to determine the **minimum** contribution requirements for employers. The assumptions/parameters have been set to, as far as possible, achieve sustainable contributions taking into account economic factors at and beyond the valuation date as well as adopting other parameters to restricting the pace at which surplus can be run off through reduced contribution rates e.g. the recovery period.
1.19	However, the employers also have a responsibility to manage the sustainability of contributions in the context of their own budgets. The draft FSS now includes explicit reference to this responsibility. As part of the consultation employers will be asked to consider the level of affordability versus the sustainability of future contribution rates if experience turns out worse than assumed e.g. a more prolonged period of low growth/returns (affecting the assets) and higher inflation (which affects the liabilities). This could result in employers choosing to pay more than the minimum contributions required by retaining more of the surplus identified at the valuation date or paying off any deficit over a shorter period. The parameters set out in the draft FSS include the flexibility for employers to do this if they wish.

2.00	**RESOURCE IMPLICATIONS**
2.01	Mercer and officers will need to spend a significant amount of time as part of the consultation with employers. This will involve meetings with employers as well as written correspondence.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The Administering Authority is required to consult with employing bodies over the development of the Funding Strategy Statement. The consultation will commence once the Committee has agreed the draft FSS and also delegated the responsibility of the refinement and finalisation of the draft FSS to the Head of Clwyd Pension Fund.

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The actuarial valuation is a vital governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements which have a material impact on budgets and local services. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinant of the overall financial risk levels in the CPF. The FSS is a crucial document setting out the overall governance and controls in place to manage these risks on a whole Fund and individual employer level.

5.00	**APPENDICES**
5.01	Appendix 1 – Draft Funding Strategy Statement

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	1. Current FSS and 2019 Actuarial Valuation report. 2. Committee report on the actuarial valuation from June 2022 **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – 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) **PFC – 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) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (g) **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. (h) **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. (i) **GAD – Government Actuary's Department -** The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

FUNDING STRATEGY STATEMENT

CLWYD PENSION FUND

[DATE]

FLINTSHIRE COUNTY COUNCIL

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Clwyd Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

Note - Square brackets indicate areas which are yet to be finalised or where hyperlinks are to be made active. These will be completed before the FSS is formally signed off in February 2023.

A glossary of the key terms used throughout is available at the end of this document [link to be inserted]

This Funding Strategy Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1
GUIDE TO THE FSS AND POLICIES

The key objectives of the Clwyd Pension Fund (“the Fund”) are set out in section 3. The information required by overarching guidance and Regulations is included in Sections 2 and 3 of the Funding Strategy Statement. This document also sets out the Fund’s policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)
The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the “Secondary” rate, are set out [link to be inserted].

2. Deficit Recovery and Surplus Offset Plans (Appendix B)
The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out [link to be inserted].

3. Admission Policy (Appendix C)
Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out [link to be inserted].

4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)
When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [link to be inserted].

5. Review of Employer Contributions between Valuations (Appendix E)
In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund’s policy on how the Administering Authority will exercise its discretion is set out [link to be inserted].

6. Covenant Assessment and Monitoring Policy (Appendix F)
An employer’s financial covenant is its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. This is a critical consideration in an employer’s funding and investment strategy as it is the employers who underwrite the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces. Further details on how employer covenant is assessed and monitored by the Fund is set out [link to be inserted].

7. Notifiable Events Framework (Appendix G)
Whilst in most cases regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to proactively notify the Administering Authority of

any material changes. This policy sets out when this may happen and the notifiable events process. More details are set out [link to be inserted].

8. Ill Health Insurance Arrangements (Appendix H)

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out [link to be inserted].

2
BACKGROUND

The objectives of the Clwyd Pension Fund (the “Fund”) is to ensure it has sufficient assets to meet its pension liabilities in the long-term in line with its fiduciary responsibility as the Administering Authority (Flintshire County Council). The Funding Strategy adopted by the Clwyd Pension Fund will therefore be critical in achieving this. The Administering Authority has taken advice from the Actuary in preparing this Statement.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given the opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received.

INTEGRATED RISK MANAGED STRATEGY

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

THE REGULATIONS

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively: “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

THE SOLVENCY OBJECTIVE

The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

LONG TERM COST EFFICIENCY

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these two key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as it relates to the Fund.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the Actuary, including the provision of a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution.

3

KEY FUNDING PRINCIPLES

PURPOSE OF THE FSS

Funding is making advance provision to meet the cost of accruing benefit promises. Decisions taken on the funding approach therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Actuary. The purpose of this FSS is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent long-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency";
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

KEY FUNDING AND INVESTMENT OBJECTIVES AND AIMS OF THE FUND:

- Achieve and maintain assets equal to 100% of liabilities within a [13] year average timeframe, whilst remaining within reasonable risk parameters.
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible.
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities.
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives.
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives.
- Ensure net cash outgoings can be met as/when required.
- Minimise unrecoverable debt on employer termination.
- Ensure that the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.
- Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
- Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

THE AIMS OF THE FUND ARE TO:	THE PURPOSE OF THE FUND IS TO:
• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due • enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designated and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future. • maximise the returns from investments within reasonable risk parameters taking into account the above aims and the risk controls in place under the Flightpath Strategy.	• receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below.

KEY PARTIES TO THE FSS

The Administering Authority should:	The Individual Employer should:
• operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations • pay from the pension fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the fund against the consequences of employer default • manage the valuation process in consultation with the Fund's Actuary • prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties	• when determining the final level of contributions payable at each valuation within the FSS parameters employers should ensure they consider the appropriate balance between contribution affordability in the short term and the sustainability of contributions in the longer term. An employer should ensure they understand the potential risk that contributions may increase if experience turns out worse than the actuarial assumptions adopted. This may lead to employers choosing to pay higher contributions than the minimum requirement under the FSS. • deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the Actuary, promptly by the due date (including any exit payments upon ceasing participation where applicable)

• monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.	• develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data may result in the employer paying higher contributions than otherwise would be the case if the data was of high quality. • notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund. • understand the pensions impacts of any changes to their organisational structure and service delivery model. • comply with Regulations in the case of a bulk transfer of staff

The Fund Actuary should:	A Guarantor should:
• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc. • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.	• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination • Where necessary, provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS) (this section is subject to finalisation once the investment strategy review has been completed and an updated ISS is confirmed)

[In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance taking into account the investment strategy adopted by the Fund, as set out in the ISS, which can be found on the Fund's website.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below:]

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
Private Markets***	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
Total	**100.0%**

CLIMATE CHANGE (this section is subject to finalisation once the analysis has been completed)

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgment made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of [20] years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.

[A summary of the output of the analysis is set out below:]

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly growth based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL	DEMOGRAPHIC
The financial risks are as follows:- • Investment markets fail to perform in line with expectations • Protection and risk management policies fail to perform in line with expectations • Market outlook moves at variance with assumptions • Investment Fund Managers fail to achieve performance targets over the longer term • Asset re-allocations in volatile markets may lock in past losses • Pay and price inflation significantly more or less than anticipated • Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions • Employer contributions are unaffordable and/or unstable • Investment and/or funding objectives and/or strategies are no longer fit for purpose • Insufficient assets to pay benefits • Loss of employer income and/or other employers become liable for their deficits • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position. In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under regular review and the performance of the investment managers is regularly monitored. In addition, the Flightpath risk management framework will help to reduce the key financial risks over time.	The demographic risks are as follows:- • Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers not in the captive arrangement • Deteriorating pattern of early retirements (including those granted on the grounds of ill health) • Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations. Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.

GOVERNANCE	REGULATORY
Governance risks are as follows:- • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or adequacy of a bond. • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements • Changes to Committee membership For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk. Full details of the risks and the controls in place are set out in the Fund risk register.	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme, • Changes to national pension requirements and/or HMRC Rules Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

MONITORING AND REVIEW

A full review of this Statement will occur every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. However, a review of part of or all of the Statement will take place annually to ensure all the relevant parameters remain fit for purpose and will take account of the current economic conditions, change in demographic trends and will also reflect any legislative changes.

FLIGHTPATH RISK MANAGEMENT FRAMEWORK - DE-RISKING STRATEGY

With effect from 1 April 2014 the Administering Authority to the Fund has implemented a Cash and Risk Management Framework ("CRMF") for the purpose of managing various aspects of the Fund's financial risks. The CRMF is made up of four key components: Liability Driven Investment ("LDI"), Synthetic Equity with Protection, Currency Hedging and Collateral Management. These components help the Fund to mitigate liability, equity and currency risk in a capital efficient manner.

The LDI component of the CRMF helps to effectively control and limit interest rate and inflation risks as these factors can lead to significant changes to liability values. At the valuation date, the level of hedging within the assets was approximately 26% in relation to interest rates and 42% in relation to inflation, meaning to the extent the liabilities vary due to these factors, the assets will offset that movements by this proportion. The level of interest rate hedging increased to c50% at 30th September 2022 and new triggers were implemented to reflect the higher interest rate and market yield environment.

The intention is for the Fund to increase exposure in the long term to achieve an 80% proportion to both interest rates and inflation as yields become more attractive through a market-aware yield trigger framework.

The overall funding flightpath strategy structure was reviewed as part of the annual review of the CRMF as well as the impact of the recent changes in interest rates and inflation outlook. A summary of the latest real yield triggers above CPI effective from [November 2022] is shown below (split by duration of liabilities). In practice the triggers are split into separate interest rate and inflation triggers.

[Table to be inserted once the latest agreed triggers have been implemented]

Risk Management Framework – Monitoring/Trigger Review

A summary report is provided to the Fund (on a monthly and quarterly basis) that includes a “traffic light” analysis of the key components of the CRMF. The “traffic light” indicates whether the CRMF is operating in line with expectations or if any actions are required.

Furthermore, a separate fund-wide mechanism is in place such that if the funding level falls more than 5% below the “expected” funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy. The Officers have agreed to implement a new funding level trigger of 110%, on a consistent approach to the valuation funding basis, to prompt further discussions regarding potential actions. This will be reviewed as part of the actuarial valuation process and investment strategy review.

A Dynamic Equity Protection strategy has been in place for the Fund since 2018. This was after rigorous analysis and value for money considerations by the Fund’s Funding and Risk Management Group (“FRMG”). The strategy protects against falls of greater than 10% the average market position over rolling 12 month period on c. £400m of equity exposure within the CRMF. The cost of protection is offset by the Fund’s participation in losses again beyond a fall of 30% from average market levels over the same 12 month period as well as by giving up some potential upside return on a 2-weekly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

1. Improved protection levels in upward trending markets;
2. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios; and
3. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off.

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager. Mercer went through a process of determining the best counterparty bank and it was agreed that JP Morgan would deliver the strategy via the existing CRMF vehicle managed by Insight Investment management.

The Fund has implemented a currency hedging policy through the CRMF to lock-in gains from the depreciation in sterling and reduce the risk of a materially strengthening pound. The coverage of the currency hedge is 75% of the overall equity portfolio.

Further details of the updated funding level triggers, equity market protection and currency hedging are shown in the relevant Committee report.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations as part of the CRMF monitoring detailed above and regular funding reviews. If considered appropriate, the funding and CRMF strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the CPF membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- have been any significant special contributions paid into the CPF
- if there have been material changes in the ISS
- if there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

The principal aim of these risk management techniques is to provide more certainty of real investment returns versus CPI inflation and/or to protect against volatility in the termination position. In other words, they are designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. The effect of these techniques has been allowed for in the actuarial valuation calculations and could have implications on future actuarial valuations and the assumptions adopted. Further details of the framework have been included in the ISS.

When monitoring the funding position, if the Administering Authority considers that any action is required, the employing authorities will be contacted to provide an update and details of any proposed remedial actions at the next valuation or earlier if appropriate.

Cash and Liquidity Management

The Administering Authority regularly monitors the position in terms of Fund cashflow requirements to ensure that benefits can be paid in an efficient manner and also to consider the impact on investment strategy e.g. in terms of collateral management. The monitoring approach and governance is set out in the separate cashflow and risk management policy.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

FINANCIAL ASSUMPTIONS		
	2022 valuation assumption	**Description**
Investment return / discount rate	Ongoing funding basis: 4.60% p.a. (past service) and 5.10% p.a. (future service)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.5% p.a. above CPI inflation (past service) and 2.0% p.a. above CPI inflation (future service). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Minimum risk termination basis: 1.7% p.a.	Derived from the yield on conventional UK Government gilts. This assumption will be reviewed on an ongoing basis to allow for changes in market conditions at the relevant employing body's cessation date, along with any other structural or legislative changes.
Inflation (Consumer Prices Index)	3.10% p.a.	RPI inflation is reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to remove any supply/demand distortions as well as Bank of England forecasts. The total adjustment was a deduction of 0.8% p.a. from the market implied RPI expectations at the valuation date.
Salary increases (long-term)	4.35% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Salary increases (short-term)	Where applicable this is 3% or 4% p.a. until 31 March 2026. As set out on individual employer results schedule.	Allowance has been made for expected short term pay restraint for some employers. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	**2022**	**2019**	**2022**
Pensioners	22.4	21.5	24.8	23.9
Actives aged 45 now	24.0	23.3	26.8	26.0
Deferreds aged 45 now	22.6	22.8	25.6	25.6

For example, a male pensioner, currently aged 65, would be expected to live to age 86.5. Whereas a male active member aged 45 would be expected to live until age 88.3. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed and updated based on LGPS wide experience.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	114% S3PMA_CMI_2021 [1.75%] 105% S3PFA_M_CMI_2021 [1.75%]
	Dependant	136% S3PMA_CMI_2021 [1.75%] 119% S3DFA_CMI_2021 [1.75%]
	Ill Health	143% S3IMA_CMI_2021 [1.75%] 170% S3IFA_CMI_2021 [1.75%]
Active	Normal Health	117% S3PMA_CMI_2021 [1.75%] 105% S3PFA_M_CMI_2021 [1.75%]
	Ill Health	256% S3IMA_CMI_2021 [1.75%] 342% S3IFA_CMI_2021 [1.75%]
Deferred	All	125% S3PMA_CMI_2021 [1.75%] 111% S3PFA_M_CMI_2021 [1.75%]
Future Dependant	Dependant	134% S3PMA_CMI_2021 [1.75%] 121% S3DFA_CMI_2021 [1.75%]

OTHER DEMOGRAPHIC ASSUMPTIONS	
Commutation	It has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Proportions Married / Civil Partnerships assumption	This has been reviewed and updated based on LGPS wide experience.
Other Demographics	Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements and withdrawal rates remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.8% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2023 to 31 March 2026. Investment expenses have been allowed for implicitly in determining the discount rates. In addition, any expenses that are directly attributable to specific employers via the Employer Liaison team, will be included in the assessment of that employer's expense allowance from the 2022 actuarial valuation. An allowance for reasonable expenses will also be

	included on the termination of an employer's participation in the Fund and will be taken into account as part of the termination valuation.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate. Employers who move from open to closed may see an increase in contributions as a result of this change.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation. In addition, the associated benefits being built up are paid out over a longer time horizon than benefits already accrued; thus it is justifiable to use a slightly higher expected return from the investment strategy.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns (in line with the appropriate investment strategy) as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This involves applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset shares maybe restated for changes in data or other policies.

Adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

APPENDIX B – DEFICIT RECOVERY AND SURPLUS OFFSET PLANS

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), an adjustment plan needs to be implemented such that the secondary contributions for each employer can be calculated. This adjustment plan requires a period over which to recover the deficit or run off any surplus i.e. the recovery period.

It is one of the Fund's key objectives that an employer will target 100% funding (e.g. full solvency) over an agreed period to maintain sustainability of contributions in the longer term subject to the affordability of the participating employers given other competing cost pressures, dependent on the Administering Authority's view of the employer's covenant and risk to the Fund. Based on the advice of the Actuary the assumptions and parameters in the FSS have be determined to try to achieve this but there is no guarantee that contributions will remain sustainable at future valuations. Employers therefore need to consider the balance between affordability of contributions in the short term and sustainability of contributions in the longer term (at subsequent actuarial valuations) in the context of their budgets now and in the future when determining the level of contributions. This could lead to an employer deciding to pay more than the minimum contributions determined under the FSS which would support future sustainability/stability of contributions at future valuations.

EMPLOYER CONTRIBUTION ADJUSTMENT PLANS– KEY PRINCIPLES

The average recovery period for the Fund as a whole is [13] years at this valuation which is [the same as] [x years shorter than] the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish.

Deficit or surplus offset contributions paid to the Fund by each employer will normally be expressed as £s amounts.

The Administering Authority retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under exceptional circumstances. Employers will be notified of their individual recovery period as part of the provision of their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account; the size of the funding shortfall; or surplus the business plans of the employer; the assessment of the financial covenant of the Employer, changes in the funding position after the valuation date which is deemed reasonable and security of future income streams; and any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The Administering Authority, following consultation with the participating employers, has adopted the following principles for setting the individual employer contribution rates arising from the 2022 actuarial valuation:

The employer contributions will be expressed and certified as two separate elements:

- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
- the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendments over 2023/26 in respect of an employer's surplus or deficit (including phasing adjustments)

The contributions certified by the Actuary will be the minimum contributions payable by the employer. An employer can choose to pay additional contributions each year if they wish to do so.

General principles:

a) Where increases (or decreases) in employer contributions are required from 1 April 2023, following completion of the 2022 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2023/24 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least 0.5% of pay per annum unless agreed otherwise based on the overall contributions paid over the certificate period. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund will not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

b) Where a deficit exists the Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain, unless there is compelling reason to do so and any reduction will need clear justification on affordability grounds. Any employer whose covenant (as assessed by the Administering Authority) is not sufficiently strong in the long term will not normally be allowed to reduce contributions where the position has improved.

c) The Fund's policy is not to allow the prepayment of employee or primary contributions and therefore only deficit contributions can be prepaid.

d) Alternative patterns of contribution, on grounds of affordability, will be considered on an individual employer basis, subject to the total contribution requirement being met over the 2023/26 period covered by the contribution certificate. Employers should be aware that varying their contribution pattern could have an effect on the level of contributions required in the future.

e) If the covenant is deemed to be materially weak, the secondary contributions may be set with reference to a higher funding target, subject to the discretion of the Fund.

f) For those bodies identified as having a relatively weak covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.

g) For employers that do not have a financial year end of 31 March 2023 (e.g. 31 July 2023), the Fund can allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2023 if the year-end is 31 July 2023).

h) Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will normally review their certified contribution in order to target a fully funded position at exit. Consideration will be given to any risk sharing arrangements when reviewing contribution rates.

i) It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, an employers could be faced with contributions that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice. Typically, this will be managed primarily through an adjustment to the recovery period and/or phasing/stepping of contributions.

j) Notwithstanding the above principles, the Administering Authority, in consultation with the Actuary, has the discretion to consider whether any exceptional arrangements should apply in particular cases.

If an employer is in deficit:

k) Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

l) For closed employers, the deficit recovery period will be linked to the expected average future working lifetime of the active membership.

m) The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.

n) Employers may also elect to make lump sum prepayments of deficit contributions (either on an annual basis or a one-off payment) which could result in a cash saving over the valuation certificate period.

If an employer is in surplus:

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a the same period as that adopted for the last actuarial valuation, subject to a total employer contribution minimum of zero i.e. the secondary contribution offset cannot exceed the primary contributions payable in any year of the certificate. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target no exit debt or exit credit being payable.

APPENDIX C – ADMISSION POLICY

INTRODUCTION

This appendix details the Fund's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It also sets out the methodology for assessment of ongoing contribution requirements.

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the Fund is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the Fund.

ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admitted body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the Actuary to the Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in Appendix B.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer (further information is set out within Appendix D).

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy can be assumed as a match to the liabilities if agreed by the Administering Authority based on the advice of the Actuary. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

APPENDIX D – TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

[The termination policy is being review in light of current market conditions and the Chancellors Autumn Statement].

This appendix details the Fund's policy on the methodology for assessment of termination payments in the event of the cessation of an employer's participation in the Fund.

EXITING THE FUND

Unless entering a DDA, an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends and the employer then becomes an "exiting employer" under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

When an employer terminates, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund (i.e. either deferred benefits or immediate retirement benefits).

In addition to any liabilities for current employees, the Fund will also retain liability for payment of benefits to former employees (i.e. to existing deferred and pensioner members) except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

TERMINATION POLICY

The Fund's policy for settling termination payments/credits is as follows:

1. The default position is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable). The treatment upon termination will depend on whether the employer has a guarantor within the Fund, or a successor body exists to take over the employing body's liabilities. Further detail is set out in the table below.

2. At the discretion of the Administering Authority, instalment plans over a defined period may be agreed but only when there are clear issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

The assumptions and approach used to assess the amount of a payment/credit payable upon termination will be consistent with the previous valuation assumptions, updated for market yields and inflation applying at the cessation date. With the following exceptions:

	Employers with no guarantor in the Fund / only a guarantee of last resort	Employers with a guarantor
Financial assumptions	The minimum risk termination basis (unless the Administering Authority agrees otherwise, based on the advice of the Actuary). Adjustments may also be made to the inflation assumption to reflect the level of overall hedging in the Fund. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).	If the employing body has a guarantor within the Fund or a successor body exists either of which would take over the employing body's liabilities, the Fund's policy is that the ongoing funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.
Demographic Assumptions	In line with the assumptions adopted for the 2022 valuation with the exception of a higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to [2.25% p.a.]. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.	In line with the assumptions adopted for the 2022 valuation for ongoing funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.
McCloud	[A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.]	
Additional Costs	A reasonable allowance for expenses will also be made in relation administration and other expenses. This will be allowed for in the final termination assessment.	
Default policy once the termination certificate has been provided	• In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time).	The guarantor or successor body will then subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund under the default policy. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) In some instances an exit debt may be payable by an employer before the assets and

	• In the case of a deficit -the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.	liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

The Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary based on any representations from the interested parties (where applicable). For example, the Fund may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers

With regard to subsuming the residual assets and liabilities, this may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

DETERMINATION NOTICES (EMPLOYERS WITH A GUARANTOR)

Where the outgoing employer is responsible for only part of the residual deficit or surplus as per a separate risk sharing agreement, the Fund's default will also be that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor.

For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later)
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or it will be taken into account at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of their determination. An exit credit determination notice will be provided alongside the termination assessment from the Actuary in cases where there is an exit credit. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

POLICY IN RELATION TO THE FLEXIBILITY FOR DEBT SPREADING AGREEMENTS (DSA) AND DEFERRED DEBT AGREEMENTS (DDA)

The default position is for exit payments to be paid immediately in full (once the cessation assessment has been completed by the Actuary (adjusted for interest where appropriate) unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment (as detailed above). In the case of an exit credit the determination process set out above will be followed.

Under the Regulations the Fund has complete discretion as to whether it agrees to put a DDA in place provided that it follows the procedure set out in the Regulations.

If an employer requests that an exit debt payment is recovered over a fixed period of time (e.g. via a Debt Spreading Agreement ("DSA")) or that they wish to enter into a Deferred Debt Arrangement (DDA) with the Fund, they must make a request in writing covering the reasons for such a request.

Any deviation from the default position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of the Fund (and therefore ultimately taxpayers) to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and, depending on the employer's circumstances, will either be required as an upfront payment or included in the contribution plan or exit debt payment.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period via a DSA.

1. The Administering Authority will request financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information to use as part of their covenant review. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser. If this information is not provided then the default policy of immediate payment will be adopted.

2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4. The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:

    a. The spreading period that will be adopted (this will be subject to a maximum of 5 years except in exceptional circumstances).
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
    f. The views of the Actuary, covenant, legal and any other specialists necessary
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

7. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

As opposed to paying the exit debt upfront or via a DSA, an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund will agree to allow the employer to enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information showing the expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority.

2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the employer could afford the exit debt (either immediately or via a debt spreading agreement) at that time (based on advice from the Actuary, covenant and legal advisor where necessary). If the exit debt is deemed to be affordable then a Deferred Debt Agreement will not apply to the employer.

3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date (for example when the Employer's active membership has reduced below 5 members and it appears likely that termination could be triggered within the next 6-9 months).

4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

   a. What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority will not enter into such an arrangement unless they are confident that the employer can support the arrangement in future. Provision of security may also result in a review of the recovery period and other funding arrangements.

b. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
c. What the updated secondary rate of contributions would be required up to the next valuation.
d. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
e. The advice of the Actuary, covenant, legal and any other specialists necessary.
f. The responsibilities that would apply to the employer while they remain in the Fund.
g. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
h. The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
i. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer, and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the triggers are met.

6. The costs associated with the advice sought and drafting of the DDA will be passed onto the employer as part of the arrangements and contribution requirements. Subject to the employer’s circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

APPENDIX E - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the overarching Government policy is that contribution reviews are not permitted outside of a full valuation cycle. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date, unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the [6] months leading up to the valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

- **Significant changes in the employer's liabilities**

  This includes but is not limited to the following scenarios:

  1. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
     a. Restructuring of an employer
     b. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
     c. A bulk transfer into or out of the employer
     d. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals
     e. Where the aggregation of member movements materially shortens the expected time horizon for continued participation in the Fund
  2. Two or more employers merging including insourcing and transferring of services
  3. The separation of an employer into two or more individual employers

  In terms of assessing the triggers under point a. above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than [5%] of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

  Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

- **Significant changes in the employer's covenant**

  This includes but is not limited to the following scenarios:

  1. Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement or creditor (e.g. banks), which may impair the security provided to the Fund.
  2. Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
  3. Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

  In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances, employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements (an example of the notifiable events framework is set out in Appendix G.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

Where a contribution review is triggered by a significant change in employer covenant, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- the contributions changing or staying the same depending on the conclusion, and/or;
- security to improve the covenant to the Fund, and/or;

In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisor.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer’s funding plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the Primary contribution rate should be adjusted to allow for any profile change
- Whether the Secondary contribution rate should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. At the absolute discretion of the Administering Authority this may result in an increase to the recovery period where the evidence gathered demonstrates that the existing time horizon is no longer achievable and the extension is in the best interests of the tax payer, taking into account any security that may be available

The review of contributions may take up to [3] months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer’s contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes.

As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions.

Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

APPENDIX F – COVENANT ASSESSMENT AND MONITORING POLICY

Covenant is the employer's legal obligation and financial ability to meet their defined benefit obligations in the Fund now and in the future. Regular assessment and monitoring of employer covenant is undertaken to understand the current strength of the employer's covenant and how they could change in the future. This is important to assist the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and, where necessary, employer recovery plans. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer's covenant can change quickly and therefore assessing the covenant of employers from a legal and financial perspective is an ongoing activity. The Fund has a well-developed and proportionate framework to monitor employer covenant and identify changes in covenant. The Fund can also draw on the expertise of external covenant advisers when necessary.

RISK CRITERIA

The assessment criteria upon which the affordability and recovery of employer contributions should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial ability to meet contributions (both ongoing and on exit)
- Employer's credit rating
- Position of the economy as a whole
- Legal aspects

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is undertaken. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

An assessment of employer covenant includes determining the following:

- Type of employer body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
  Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

Research will be carried out into employers' backgrounds and, in addition, employers may be contacted to gather further information. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk. The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed in detail at each triennial actuarial valuation and will continue to be monitored between valuations (including on the termination basis) using an online system provided to officers by the Fund Actuary. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately. The notifiable event requirements are set out in Appendix G.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX G - NOTIFIABLE EVENTS FRAMEWORK

The Fund regularly monitors the covenant of its employers. Whilst in most cases the regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to notify the Administering Authority of any material changes. This is in keeping with the guide that The Scheme Advisory Board recently published (‘A Guide for Administering Authorities’) in which is recommended that Administering Authorities should include a notifiable events process within its policies.

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress and keep the interests of the employer, the Fund, the members and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgment of the Fund, could materially affect one or more of the following:

- the employer’s basis for continued participation in the Fund
- the employer’s ability to pay its ongoing contributions to the Fund*
- the employer’s ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund*

* These conditions would also apply where an employer and the Fund has entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

EVENTS THAT MUST BE NOTIFIED TO THE FUND

The Fund considers any change that would be detrimental to either the employer’s ability to finance their pension obligations or the ongoing viability of the employer to be ‘material’ and ‘significant’.

Typical events that must be notified to the Fund include the following:

1) **Significant changes in the employer's <u>membership / liabilities</u>**

This includes but is not limited to the following scenarios, where applicable:

i) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   a. Restructuring of the employer involving significant changes in staffing
   b. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)*
   c. A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
   d. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals*
   e. A decision which will restrict the employer's active membership in the future*

ii) Two or more employers merging including insourcing and transferring of services*

iii) The separation of an employer into two or more individual employers*

iv) Concerns of fraudulent activity that may include pensions aspects

*In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.

2) **Significant changes to the employer covenant**

i. **Significant changes in the employer's <u>financial strength / security</u>**

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

a. An employer's forecasts indicate reduced affordability of contributions.
b. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)
c. Provision of security to any other party including lenders and alternative pension arrangements
d. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
e. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
f. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
g. The employer has defaulted on payments
h. There has been a breach of banking (or other) covenant or the employer has agreed a waiver with the lender
i. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
j. An employer becomes insolvent

ii. A change in the employer's <u>circumstances</u>

This includes but is not limited to the following scenarios, where applicable:

a. A merger of the employer with another organisation
b. An acquisition by the employer of another organisation or relinquishing control
c. An employer commences the wind down of its operations or ceases to trade
d. A material change in the employer's business model
e. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
f. The employer becoming aware of material suspected / actual fraud or financial irregularity
g. The employer becoming aware of material legal or court action against them
h. There has been suspension or conviction of senior personnel
i. Regulatory investigation and/or sanction by other regulators
j. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g. at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or a covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

a. No further action required
b. More detailed request for further information and ongoing monitoring
c. The Fund will review the documentation provided and respond on next steps
d. A review of employer contributions
e. A review of the recovery period used to calculate secondary contributions
f. A review of the termination position and discussions with the employer as to how this may be addressed
g. A review of any deferred debt agreements if applicable

Employers will kept informed of all steps throughout the process.

APPENDIX H – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENTS

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions.

For certain employers in the Fund (following discussions with the Fund Actuary) a captive ill health insurance arrangement was established by the Administering Authority to cover ill health retirement costs by pooling these risks for eligible employers. The aim of the arrangement is that smaller employers, whose funding position could be significantly affected by the retirement of one or more of their members on the grounds of ill health, pay a premium to the Fund within their future service contribution rate. This has applied to all ill-health retirements since 1 April 2017.

The internal captive arrangement operates as follows:

- "Premiums" are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer's primary rate. The premium for 2023/26 is 0.6% of pensionable pay per annum.

- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e.so there is no initial impact on the deficit position for employers within the captive.

- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.

- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will generally be included in the captive are:

- Community related Admitted Bodies
- Town and Community Councils

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. At the discretion of the Administering Authority and where is it felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs would be recovered from the employer. This would normally be at the next valuation but could be at an earlier review of the contributions due, including on termination of participation.

EMPLOYER RESPONSIBILITIES

Apart from the regulatory procedures in place to ensure that ill health retirements are properly controlled, **employing bodies should be doing everything in their power to ensure robust processes are in place to determine eligibility for ill health retirements.**

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

APPENDIX I - GLOSSARY OF TERMS

ACTUARIAL VALUATION: an investigation by an Actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

ADMINISTERING AUTHORITY: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

ADMISSION BODIES: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

BENCHMARK: a measure against which fund performance is to be judged.

BENEFITS: The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

BEST ESTIMATE ASSUMPTION: an assumption where the outcome has a 50/50 chance of being achieved.

BONDS: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH: An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

CONTINGENT ASSETS: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

COVENANT: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

DEFERRED DEBT AGREEMENT (DDA): A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

DEFERRED EMPLOYER: An employer that has entered into a DDA with the Fund.

DEFICIT: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

DEFICIT RECOVERY PERIOD: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

DERIVATIVES: Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

DISCOUNT RATE: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount means lower liabilities and vice versa.

EARLY RETIREMENT STRAIN: the additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"): the contribution rate payable by an employer (expressed as a % of pensionable pay) which is set at a level which should be sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

EMPLOYER'S SECONDARY CONTRIBUTION RATE: an adjustment to the Primary Rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary Rate may be expressed as a percentage adjustment to the Primary Rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary Rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary Rates. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

EMPLOYING BODIES: any organisation that participates in the LGPS, including admission bodies and scheme employers.

EQUITIES: shares in a company which are bought and sold on a stock exchange.

EQUITY PROTECTION: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

EXIT CREDIT: the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

FLIGHTPATH: a framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when “triggers” are hit, whilst still expecting to achieve the overall funding target.

FUNDING OR SOLVENCY LEVEL: the ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

FUNDING STRATEGY STATEMENT: This is a key governance document that outlines how the Administering Authority will manage employer’s contributions and risks to the Fund.

GOVERNMENT ACTUARY'S DEPARTMENT (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

GUARANTEE / GUARANTOR: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.

HEDGING: a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

HEDGE RATIO The level of hedging in place as a percentage of the liabilities. This can be in relation to interest rates, inflation rates or real rates of return.

ILL HEALTH CAPTIVE: this is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

INVESTMENT STRATEGY: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

LETTING EMPLOYER: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate those employing bodies which are eligible to participate, members' contribution rates, benefit calculations and certain governance requirements.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LONG TERM COST EFFICIENCY: this is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

MATURITY: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

MCCLOUD JUDGMENT: This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

MEMBERS: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired and dependants of deceased ex-employees).

MINIMUM RISK FUNDING BASIS: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy. This is usually adopted when an employer is exiting the Fund.

ORPHAN LIABILITIES: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

PAST SERVICE LIABILITIES: this is the present value of all the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

PERCENTILES: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

PHASING/STEPPING OF CONTRIBUTIONS: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually "stepped" or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

POOLING: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

PREPAYMENT: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

PRESENT VALUE: the value of projected benefit payments, discounted back to the valuation date.

PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

PROFILE: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

PRUDENT ASSUMPTION: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

RATES AND ADJUSTMENTS CERTIFICATE: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

REAL RETURN OR REAL DISCOUNT RATE: a rate of return or discount rate net of (CPI) inflation.

RECOVERY PLAN: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SAB FUNDING BASIS OR SAB BASIS: a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculated the Fund's solvency funding position and contribution outcomes for employers.

SCHEDULED BODIES: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

SCHEME EMPLOYERS: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

SECTION 13 VALUATION: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2022 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

SECONDARY RATE OF THE EMPLOYERS' CONTRIBUTION: an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

SOLVENCY/FUNDING LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

SOLVENCY FUNDING TARGET: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

STRAIN COSTS: the costs arising when a members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

VALUATION FUNDING BASIS: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 SCHEME: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 23rd November 2022
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The estimated funding position at 30 September 2022 of 102% is around 9% ahead of the expected position.

The objectives and update on the various parts of the Risk Management Framework is included in the Appendix and shows the management of interest rate and inflation risk, equity market risk, currency risk, liquidity and collateral risk.

The total gain since inception of the synthetic equity strategy to 30 September 2022 is c. £43.2m. The currency hedging positions have made a loss of £44.3m in total since inception to 30 September 2022 due to significant weakening of sterling over that period versus the dollar and in particular in the recent months. This is offset against gains on the physical overseas equity holdings.

The Fund remains in a healthy position in terms of funding level versus the expected position, despite a challenging market. The Fund has benefitted from having the Flightpath in place, as both the equity protection strategy has increased in value as equity markets have fallen, and the inflation protection has reduced the funding strain from the increase in inflation expectations over the year.

The UK gilt market experienced extreme volatility as a result of the 'mini-budget' on 23 September. The sharp rise in real yields reduced the collateral held to support the Flightpath. The robust collateral monitoring and governance framework meant the Fund were able to react quickly during the gilt market volatility, and the actions taken has meant that there was no detrimental impact on the funding position or expected returns.

The annual FRMG assessment of the flightpath was carried out in September. It was recommended that a restructure of the interest rate and inflation trigger framework be implemented. At 30 September, the trigger framework was paused due to the potential demand on collateral if interest rates continued to rise sharply.

Following the extreme volatility in the UK gilt market, the Officers instructed sales from the Fund's equity portfolio (totalling £215m) in October and November to support the collateral position, replacing the majority of exposure (£210m) synthetically to maintain the overall strategic exposures of the Fund. This has allowed the Officers to re-instate the trigger framework, with levels raised to with stand greater yield rises. The Officers have also developed a plan for sourcing further liquidity at short notice to withstand future gilt market volatility.

RECOMMENDATIONS	
1	That the Committee note and consider the contents of the report and the increase in the level of hedging and the various actions taken.

REPORT DETAILS

1.00	FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE
1.01	**Update on funding and the flightpath framework** The monthly summary report as at 30 September 2022 from Mercer on the funding position and an overview of the risk management framework is attached in Appendix 1. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 102% at 30 September 2022, which is 9% ahead of the expected position when measured relative to the 2019 valuation expected funding plan. The investment environment has continued to be bearish year to date amid rising inflation and interest rates. A trigger of 110% has been put in place to prompt future FRMG de-risking discussions and a formal protocol was proposed and ratified by the Committee. The funding level is below this trigger currently but if breached, this would prompt further analysis on whether the Fund can take de-risking actions to provide more certainty for employers without inadvertently putting upwards pressure on contributions in future. This trigger will be kept under review over time and will take into account the 2022 valuation and emerging contributions in due course.
1.03	The level of hedging was approximately 50% for interest rates and 40% for inflation at 30 September 2022. The liability hedging portfolio performed negatively over the quarter to 30 September 2022 due to a combination of a continued rise in gilt yields and falling inflation expectations although this is offset somewhat by the fall in liabilities due to the increased discount rate versus inflation. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield/return expectation to achieve the funding and contribution targets. At its 2 September meeting, the FRMG agreed to restructure the interest rate and inflation trigger framework to ensure the Fund continues to capture attractive opportunities as interest rates rise or inflation expectations fall. It was agreed to increase the interest rate triggers to target a 4.5% yield, and reduce the inflation triggers to target a 2.3% yield. Triggers are in place to purchase additional interest rate or inflation hedging at an affordable level. The increase in interest rate hedge ratio relative to the previous committee report is a result of interest rate triggers being hit due to sharp increases in gilt yields. The Fund has therefore

taken opportunities to lock into yields at more attractive levels.

However, following the significant rise in gilt yields, the Officers decided to pause the trigger framework ahead of 30 September to take stock of the position and provide more collateral to the risk management framework.

1.04 Based on data from Insight, our analysis shows that the management of the Insight Liability Hedging mandate is rated as “green” as at the end of Q2 2022, meaning it is operating in line within the tolerances monitored by Mercer.

The Cash Plus Fund is rated “amber” due to underperformance since inception and over Q2 2022, to reflect the challenging market conditions for the asset classes over recent periods. The collateral position of the Fund worsened over the quarter to September 2022 due to sharp rises in gilt yields. In line with the terms of their mandate, Insight sold the majority of the Cash Plus Funds (including the entirety of the High Grade and Global ABS holdings) to improve the collateral position. Insight also used the £30m held outside of the QIAIF in a liquidity fund to help manage the collateral position.

The collateral waterfall structure will be reviewed on an ongoing basis and the Officers have carried out additional work to understand the liquidity of the wider investment strategy to understand where capital could be sourced at short notice, should it be required in future to supplement available collateral within the Flightpath.

1.05 **Update on Risk Management framework**

(i) <u>Synthetic equity and equity protection strategy</u>

The Fund gains exposure to equity markets via derivatives and protects this exposure against potential falls in the equity markets via the use of an equity protection strategy. This provides further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality.

It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets. Importantly over the longer-term the increased security allows the Actuary to include less prudence/buffer in the Actuarial Valuation assumptions; this translated into lower contributions at the 2019 valuation, whilst maintaining the equity exposure supports a lower cost of accrual than under traditional de-risking methods.

The Fund has a bespoke synthetic equity and equity protection strategy, which is implemented through a Total Return Swap (“bespoke TRS”) contract with JP Morgan, held within the Insight QIAIF (the fund that implements the risk management strategies on the Fund’s behalf). The TRS contract is for a fixed term of 3 years up to 2024.

As at 30 September 2022, the total performance since inception of the bespoke TRS synthetic equity and equity protection strategy in May 2018 was an increase of c. £43.2m. Relative to investing in passive equities

	(and assuming no costs to do so), the strategy has underperformed by c. £74m since inception. The underperformance is largely driven by the rise in equity markets since inception of the strategy meaning the protection has become less valuable. Over the year to date the Fund has benefitted from the protection provided by the equity protection strategy due to sustained falls in equity markets. This has somewhat reversed over the quarter as the strategy underperformed an investment in passive equities (with no frictional costs).
1.06	(ii) <u>Collateral update</u> The Officers took a number of actions to support the collateral position since the date of the last committee report. This included instructing sales from the Fund's equity portfolio (totalling £215m) to support the collateral position. The majority of the equity exposure (£210m) was replaced synthetically with Insight so as to maintain the overall strategic allocation of the portfolio. Actions taken by the Officers have ensured that the QIAIF continues to have a healthy collateral position despite the recent increases in interest rates, which have caused the value of Liability Hedging assets to fall. This is despite the recent press coverage which was mainly related to private sector schemes with higher hedge ratios and different objectives in relation to risk management.
1.07	(ii) <u>Currency hedging gain/loss</u> The currency risk associated with the market value of the synthetic equity strategy is hedged and has made a loss of £21.3m since inception on 8 March 2019 to 30 September 2022 due to the material weakening of sterling over that period, particularly versus the US dollar. The Fund's overseas developed market physical equity holdings are currency hedged and have made a loss of c. £23.0m since inception of the strategy due to the material weakening of sterling over that period. Overall the action to hedge the Fund's developed equity currency risk has resulted in a loss of £44.3m since inception of the strategies, although this will have been offset by rises in value of the overseas equity holdings due to these currency movements.
1.08	**Impact of interest rate and inflation changes on the discount rate** As part of the 2022 valuation, the discount rate (expected return) and inflation rate assumptions will be set in relation to market conditions at 31 March 2022 and this will be discussed with Committee as part of the valuation and Funding Strategy Statement considerations. Typically, the discount rate will change broadly in line with the global outlook for inflation and interest rates within the framework plus any material shift in economic outlook. Historically the discount rate versus CPI inflation i.e. the CPI+ discount rate has not changed materially and would only be considered in great detail at each valuation or interim valuation update. However, given the material shift in interest rates, inflation and global economic outlook since the valuation date there has been a material shift which has affected the value of the liabilities. It is important when considering the investment strategy and also the Flightpath (as noted above) that we recognise this material change, as it

	will determine the pathway for contributions and links the investment and funding strategy directly. The FRMG discussed this at the 2 September meeting and agreed the approach to updating the discount rate and how that will feed into the investment strategy review to ensure the funding and investment strategies are fully aligned. This will fully take into account the change in economic outlook on a quarterly basis and interest rate/inflation changes on a monthly basis as normal.
1.09	**Decisions made since quarter end** The Fund implemented c. £210m of exposure in long-only synthetic equity positions in October and November 2022 to replicate the exposure lost through equity sales to provide additional capital to the Flightpath to support the collateral position (long-only TRS). Both positions consist of broad market exposure and are implemented through vanilla equity TRS. Further, following the pausing of the interest rate triggers in late September, the FRMG agreed at the 31 October meeting to reinstate the triggers but increase the interest rate trigger levels by 0.5% to target a 5% interest rate trigger level in light of further uncertainty. The Officers are currently awaiting the documentation from Insight to re-instate the triggers at their new levels. The Officers have also reviewed the liquidity of the wider investment strategy to ensure swift action can be taken in the event of future market volatility. For the purpose of providing more collateral to the RMF at short notice, capital would be sourced in the following priority order: **Stage 1:** Sell down physical equity holdings and synthesise the exposure within the RMF with Insight. **Stage 2:** Reduce synthetic equity exposure to reduce the collateral strain within the Insight portfolio; and **Stage 3:** Sell a portion of the next most liquid asset to increase physical collateral within the Insight portfolio.

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

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None required

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will

	provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound which would be detrimental to the Fund's deficit. Hedging the currency risk of the developed market physical equity exposure will mitigate the risk of a strengthening pound.

5.00	**APPENDICES**
5.01	Appendix 1 - Monthly monitoring report – 30 September 2022 Appendix 2 – Committee Update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016. • Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

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) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **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. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1

Mercer

Risk management framework

Monthly Monitoring Report: 30 September 2022

Clwyd Pension Fund

October 2022

Nick Page FIA CERA

welcome to brighter

Overriding objectives

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Stable and affordable contribution rate

Versus

Achieve returns in excess of CPI required under funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

Executive summary

= as per or above expectations = to be kept under review = action required

Overall funding position at 30 September 2022

- Ahead of existing recovery plan
- Funding level above 100%

The funding position is 102% which is ahead of the target by around 9%. There is continuing uncertainty in the outlook for future returns and inflation which could impact on the future funding requirements.

Liability hedging mandate at 30 September 2022

- Insight in compliance with investment guidelines to 30 June
- Performed broadly in line with the benchmark over Q3
- Interest rate exposure increased from 20% to 50% due to trigger hits

11 interest rate triggers were breached in total over Q3 2022, driven by significant gilt market volatility in September. This led to further collateral being provided to the liability hedging mandate post month end.

Synthetic equity mandate at 30 September 2022

- Insight in compliance with investment guidelines
- Outperformed the benchmark over the month

A dynamic protection structure was implemented in late May 2018, with refinements made in November 2020. The TRS structure rolled on 23 May 2021 with no further changes to the strategy. No action required.

Currency hedging at 30 September 2022

- Currency hedging overlay implemented in the QIF in August 2019
- As at 31 August 2022, the market value of the currency hedge since inception on 22 August 2019 was -£23.0m

No action required.

Cash Plus Funds, collateral and counterparty position at 30 June 2022

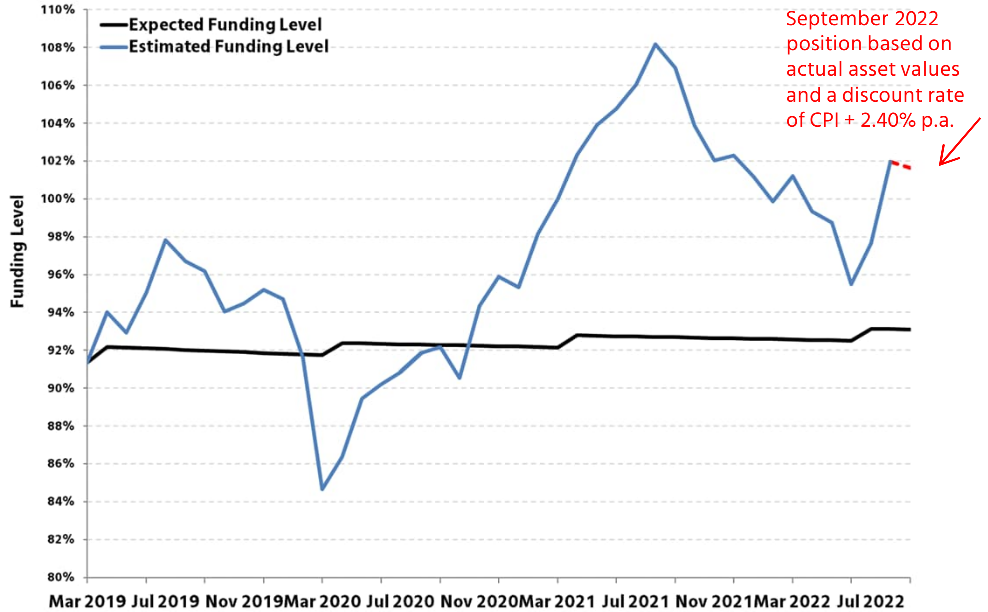
- The Cash Plus Fund has underperformed the benchmark since inception and also over the quarter. We will continue to monitor performance.
- The Insight QIF can sustain at least a 1.7% rise in interest rates or 1.1% fall in inflation without eliminating all headroom.

Overall, the collateral waterfall has returned £6.2m at 30 June 2022 since implementation at 31 January 2019 versus the previous structure.

The Fund has sufficient collateral to withstand the stresses as at 30 June 2022. No action required.

Funding level monitoring to 30 September 2022

Estimated funding position since 31 March 2019



The actual funding level figures include allowance for the impact of the McCloud judgment and GMP equalisation from 31 May 2021 plus the provisional 2022 valuation results from 30 September 2022.

Funding Level Triggers

Following a breach of the 100% soft trigger, it was concluded at the FRMG on 9 July 2021 that the funding level was not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a new trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 110% on a consistent approach to the 2019 valuation funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2019 valuation based on the assumptions (and contributions) outlined as part of the 2019 actuarial valuation. The expected funding level at 30 September 2022 was around 93%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2019 to 31 August 2022. The **red dashed line** shows the progression of the estimated funding level over September 2022. At 30 September 2022, we estimate the funding level and surplus to be:

102% £36m

From 30 September 2022, we have allowed for the impact of the 2022 valuation outcomes based on the draft Funding Strategy Statement assumptions. The Fund's position was ahead the expected funding level based on the **2019 valuation** expectations at 30 September 2022 by around 9% on the current funding basis.

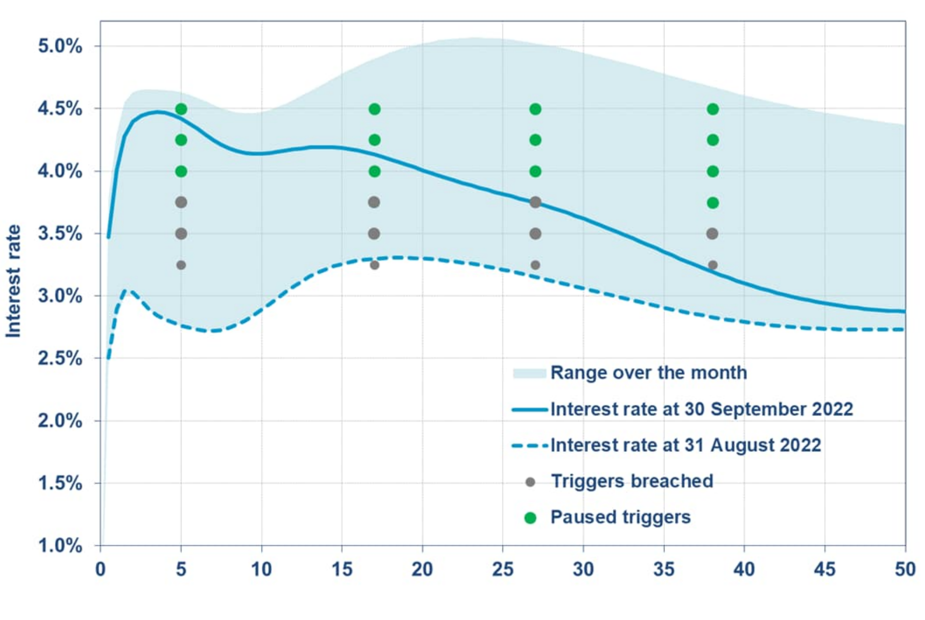
Uncertainty continues to be prevalent in the investment and fiscal environments due to the geo-political uncertainty and economic outlook – in particular inflation which has a direct impact on the Fund's liabilities. In particular when assessing the funding levels from 31 March 2022 onwards above, we have incorporated an allowance for observed inflation since September 2021 which will impact on the 2023 pension increase. For these funding levels we have also approximately allowed for the change in interest rate and inflation outlook when considering the appropriate discount rate as noted above.

The funding progression will be restated relative to the final 2022 valuation once the final contributions and assumptions are agreed which will be in March 2023.

Mercer

Update on market conditions and triggers

Change in interest rates



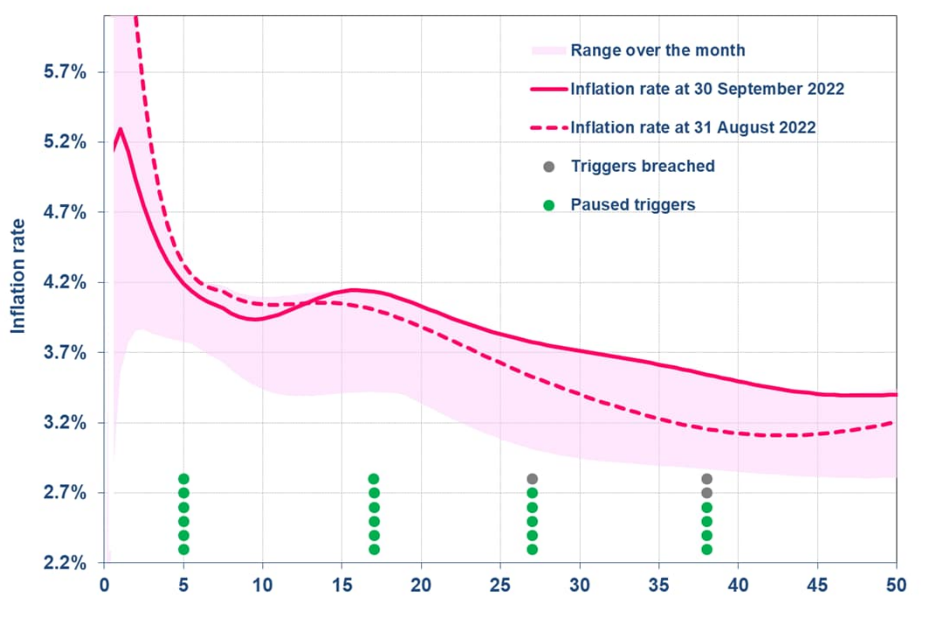
Date	Band 1	Band 2	Band 3	Band 4
30 September 2022	47.2%	50.9%	49.7%	48.7%

Comments

Over September, interest rates rose materially across the curve leading to increases in the interest rate hedge ratio from c. 20% to c. 50%.

Following the pace of hedge ratio increase, the Fund paused the interest rate trigger framework on 23 September 2022.

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4
30 September 2022	39.1%	22.2%	32.2%	58.0%

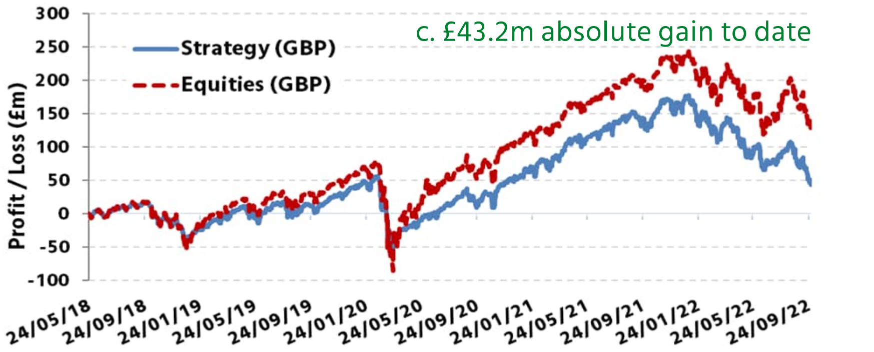
Comments

Inflation expectations rose at longer durations and fell at shorter durations over the period. The inflation hedge ratio is c. 40%.

*Hedge ratios calculated with reference to 2019 valuation cash flow analysis and relying on a discount rate of gilts + 3.9% p.a..

Update on equity protection mandate

Strategy versus equity index

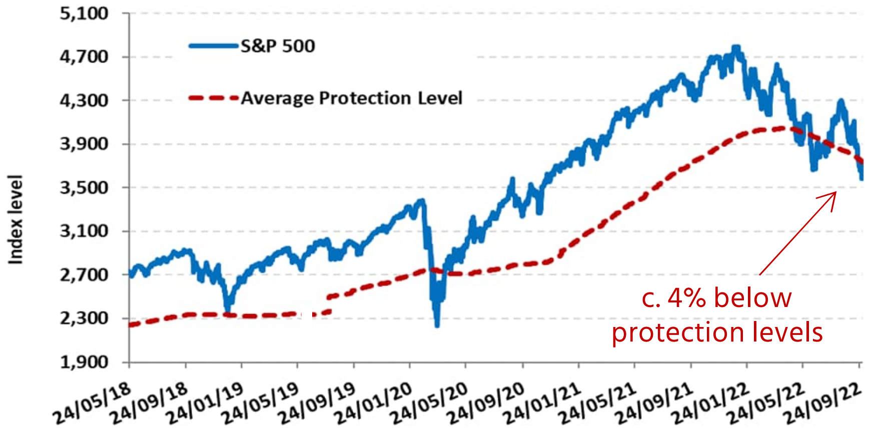


GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	(10.9%)	3.3%	0.7%	(0.1%)	(6.9%)	4.0%
YTD	(29.2%)	4.6%	0.3%	(0.4%)	(24.7%)	4.5%
SI (per annum)	6.1%	(1.5%)	(1.5%)	(0.5%)	2.6%	(3.5%)

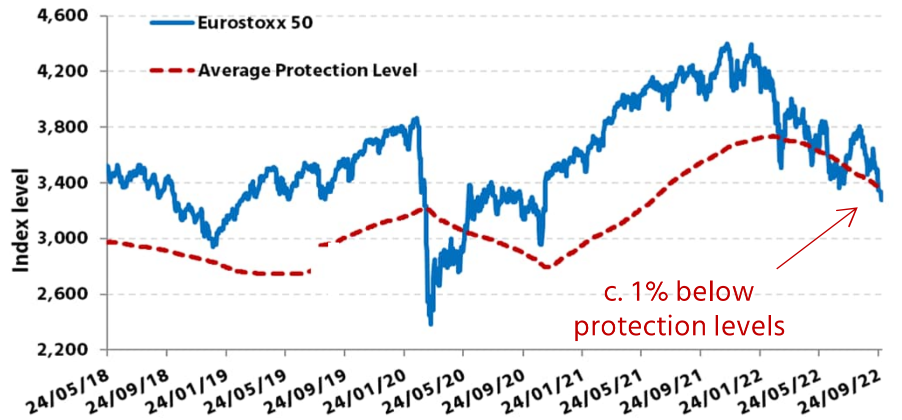
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. The equity protection strategy was revised in Q4 2020, increasing the call frequency to 2 weekly. This ensures that the Fund can participate in more upside as equity markets rise. The TRS structure was extended for a further 3 years on 23 May 2021 with no further changes to the strategy.
- Equity markets fell over September meaning the equity protection mandate detracted from returns, particularly on the hedging leg. There was a gain on both the hedging and financing legs over the month.
- The strategy has outperformed passive equities year to date. As at 30 September 2022, there was a gain of c. £43.2m on the strategy since inception.
- From inception on 8 March 2019 to 30 September 2022, the currency hedge of the market value of the synthetic equity mandate has resulted in a c. £21.3m loss relative to an unhedged position, as sterling has weakened at an overall level since inception.

US equity exposure



European equity exposure (note: different scale)



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Mercer

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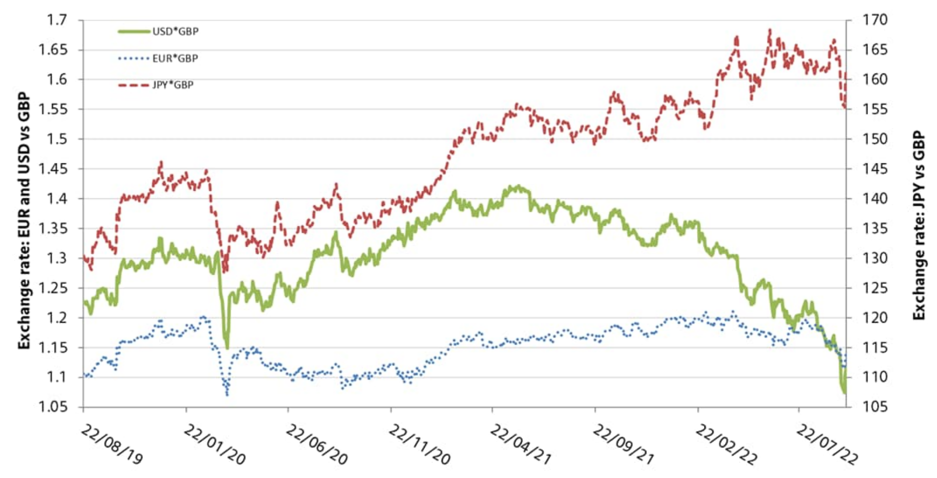
Developed market physical equity currency hedge

Sterling denominated FX rate



Comments

- A currency hedge was placed on the physical, developed equity portfolio to lock-in gains from sterling weakness and reduce currency risk.
- The hedge has been implemented via a currency overlay, using 3 month forward contracts, within the Insight QIAIF. The hedge is updated quarterly to allow for changes in the underlying equity exposure.
- As at 30 September 2022, the market value of the currency hedge since inception on 22 August 2019 was -£23.0m.
- The market value of the currency hedge has fallen over September, driven predominantly by a weakening of sterling against the dollar. Sterling also weakened against the euro and strengthened slightly versus the yen.

	Currency basket weight	FX performance (since inception*)	FX change in performance since 31 August 2022
EUR	14%	£1.3m	(£0.4m)
JPY	7%	£3.9m	£0.1m
USD	79%	(£28.2m)	(£7.0m)
	100%	**(£23.0m)**	**(£7.3m)**

*Insight transacted on the currency hedge on 22 August 2019.

Figures may not sum due to rounding.

Glossary

- **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determining 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.
- **Collateral** – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- **Counterparty** – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- **Deficit** - The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- **Dynamic protection strategy** – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- **Equity option** – A financial contract in which the Fund can define the return it receives for movements in equity values.
- **Flightpath** - A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.
- **Funding level** - The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.
- **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.
- **Hedging** - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- **Hedge ratio** – The level of hedging in place in the range from 0% to 100%.
- **Insight QIAIF (Insight Qualifying Investor Alternative Investment Fund)** – An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.

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Clwyd Pension Fund

Committee Update

November 2022

Nick Page FIA CERA

A business of Marsh McLennan

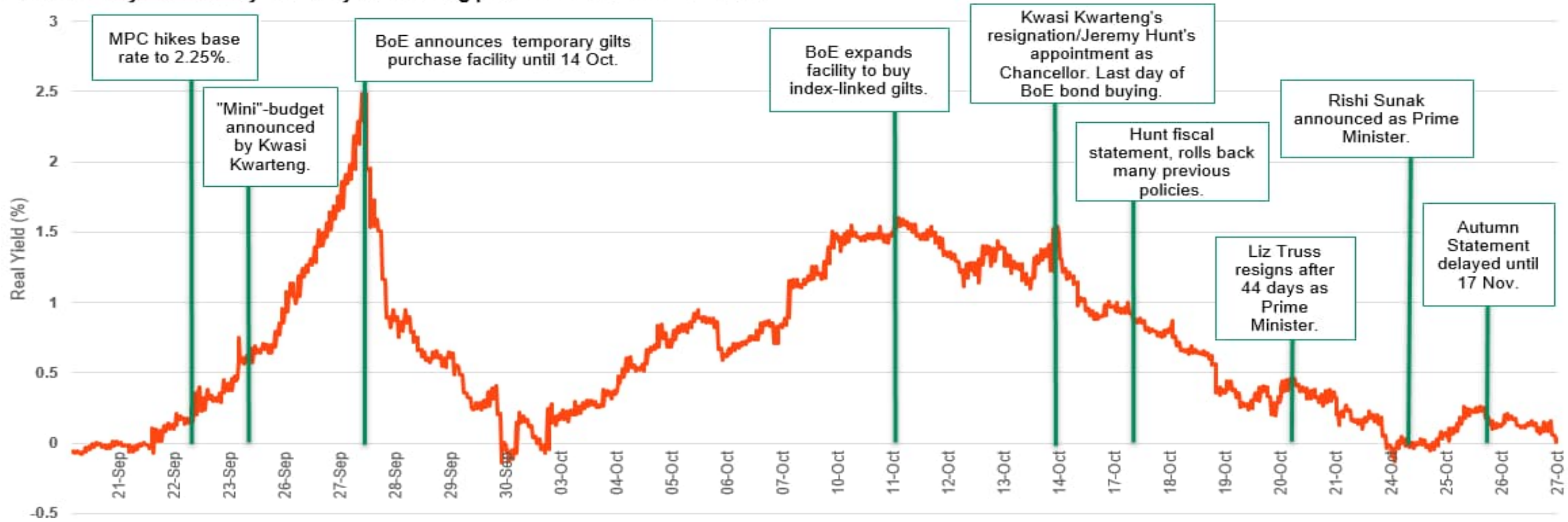
Reminder of Recent Events

Following Kwasi Kwarteng's 'mini-budget' announcement on Friday 23rd September, the UK gilt market has since experienced extreme volatility, with nominal and real yields rising c. 1% over as little as three days, on the expectation of increased gilt supply in the market and a fall in confidence in the strength of the UK economy. The Bank of England ("BoE") subsequently stepped in to stabilise gilt markets, committing to buying up to £5bn of long-dated gilts on a daily basis until 14th October to prevent the continued sell off in markets, after which support fell away.

The appointments of Jeremy Hunt as Chancellor and the resignation of Liz Truss and appointment of Rishi Sunak as Prime Minister have served to stabilise markets thus far. However, it should be noted that yields remain elevated relative to 'normal' levels and there is scope for them to rise further as a result of near-term events across fiscal and monetary policy.

On 3 November 2022 the BoE increased base rates by 0.75% p.a. to 3.00% p.a., which was the biggest single rate rise in interest rates since 1989. Gilt yields rose on the news, however the increase was largely priced in by the market. Market expectations are that base rates may reach 4.75% p.a. by June 2023.

Extreme real yield volatility driven by fast moving political events and BoE actions



Source: Bloomberg, BlackRock. Data as at 27 October 2022. Yield shown is for 2052 Index-linked Gilt.

Summary of Actions Taken

Interest Rate and Inflation Trigger Framework

The interest rate and inflation trigger framework was refreshed in September as a result of the annual healthcheck of the RMF. The margin between interest rate triggers was increased from 0.15% to 0.25% and the margin between inflation triggers was increased from 0.05% to 0.10%, so that the Fund could lock in to more favourable yields following trigger hits.

Further to increase volatility at the end of September, the Officers suspended the Fund's trigger framework to prevent increases in hedge ratios, which would strain collateral levels if yields were to rise further. There were a number of interest rate triggers hit in the week to the framework being paused on 23rd September. No inflation triggers were hit since the last assessment at 31 August 2022. Three of the four duration bands have breached the third interest rate trigger, with the longest band breaching the second.

Collateral Waterfall

The collateral waterfall framework worked as planned in the immediate aftermath of the Chancellor's "mini-budget", providing additional immediate collateral to the liability hedging portfolio as the Fund suffered mark-to-market losses as a result of rising yields.

In early October, the Officers instructed sales of the BlackRock Global ESG Equity Fund (totalling £125m) to support the collateral position within the RMF. The equity exposure was replaced synthetically with Insight so as to maintain the expected return on the portfolio to the extent possible. A further £90m was sold from the WPP Emerging Market Equity holdings to increase collateral, which settled in the QIAIF in early November. This exposure was also replaced synthetically.

Action taken by the Officers as a result of extreme market movements meant that the collateral position remained strong. Swift action to take additional steps needed is facilitated by the strong governance arrangement.

Further Actions Being Taken

Interest Rate and Inflation Trigger Framework

The Officers have agreed to re-instate the interest rate trigger framework, increasing the interest rate triggers by 0.5% in each maturity band, which will allow the Fund to capture higher yields opportunistically without having to re-collateralise the liability hedging portfolio in the immediate term.

Collateral Arrangements

The Officers have reviewed the liquidity of the wider investment strategy to ensure swift action can be taken in the event of future market volatility. This review has given due consideration to the long term strategic targets of the Fund and allows investment strategy to maintain a similar balance of return and risk as the current investment strategy.

In the event of extreme market volatility, for the purpose of re-collateralising the RMF, the priority order for sourcing additional capital will be as follows:

- **Stage 1:** Sell down physical equity holdings and synthesise the exposure within the QIAIF with Insight.
- **Stage 2:** Reduce synthetic equity exposure to reduce the collateral strain within the QIAIF; and
- **Stage 3:** Sell a portion of the next most liquid asset to increase physical collateral within the QIAIF.

There are wider implications to be considered as part of synthesising the Fund's equity exposure, such as the relationship with the Pool and any knock on impact on the Fund's ESG commitments, however the Officers note that these are second order compared to the risk of lost exposure or default as a result of running too much leverage within the RMF.

It is worth noting that in a scenario where extreme stress is applied to the QIAIF as a result of rising interest rates, it is likely that the Fund's financial position would have improved significantly, and therefore it may be appropriate to de-risk from higher-returning assets. Any proceeds from such de-risking activity may be used to increase the collateral within the QIAIF as required.

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CLWYD PENSION FUND COMMITTEE	
Date of Meeting	Wednesday, 23rd November 2022
Report Subject	Investment Strategy, Economic and Market Update and Performance Monitoring Report
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to update the Committee on the Economy and Markets, and the Performance of the Fund's investments. The reports cover periods ending 30 September 2022, and are attached as appendices to this report.

Key points to note:

Economy and Markets

- Equity markets weakened globally as financial conditions tightened, input prices rose and recessionary risks increased - a recovery rally early in the quarter dissipated in August. Global Equities returned 1.4% in sterling terms and -4.8% in local currency terms.
- Over the quarter the Bank of England (BoE) increased the base rate twice, to 2.25%, post quarter end the base rate has risen to 3.0%.
- The UK experienced significant gilts market volatility and sterling weakness post quarter end resulting from announcements contained in the mini-budget. Subsequent intervention from the BOE stabilised market conditions though yields remain elevated.
- The US Federal Reserve (Fed) raised rates over the quarter to 3.25%, post quarter end the rate has risen to 4.0%.
- Both the BoE and Fed are expected to continue to tighten policy throughout the rest of 2022 and 2023 though inflationary pressures appear to be easing - declines in US energy prices from their peaks should lead the headline inflation rate lower in the coming months. Gradual easing of supply side constraints and weaker demand could also slow core inflation.

Performance Monitoring Report

- Over the three months to 30 September 2022, the Fund's total market value decreased by £64.2m to £2,216.0m.
- Fund Performance over 3 months, 12 months and 3 years; -2.5%, -6.5% and +4.1% p.a. respectively.
- Fund Performance is ahead of the composite benchmark over all periods.
- All asset classes are broadly in line with strategic target weight.

Performance of the Fund is reviewed monthly by the Fund's Officers and advisers.

RECOMMENDATIONS	
1	That the performance of the Fund over periods to the end of September 2022 are noted along with the Economic and Market update which effectively sets the scene.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update** The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following key sections: • **Economic and Market Background** – an overview of markets in the quarter, including commentary on key economic indicators • **Equity Market Review** – information on the performance of equity markets during the quarter and key drivers of markets • **Bond Market (Fixed Income) Review** – provides an update on bond yield movements and interest rates for the period • **Currencies, Commodities and Alternatives Review** – provides an update on the performance of Sterling against other currencies as well as highlighting movements in major commodity and alternatives asset classes for the period
1.02	Inflation and central bank policy continued to drive markets in the third quarter of 2022. Inflation readings in most major regions remained high and rising. Central banks therefore continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility. Risk assets rose in July on the back of hopes of inflation peaking and the hiking cycle ending, but these hopes were quashed later in the quarter. Furthermore, markets priced in the increasing risk of a recession resulting from the monetary tightening. Therefore, most major asset classes ended the quarter with negative returns. The third quarter produced mixed returns though UK investors mitigated some global equity drawdown as a result of the continued weakening of Sterling. Emerging Market Debt was the only asset class to produce positive absolute returns whilst commodity markets saw the biggest fall in value over the quarter. Sterling depreciated against the US Dollar and Euro and the Yen. Post quarter end saw exceptional movements in UK government bond markets and significant further weakening of Sterling – this was as a result of investor reaction to announcements made in the min budget on 23rd September. A verbal update will be provided to Committee on market movements since the writing of this report.
1.03	**Performance Monitoring report** Over the 3 months to 30 September 2022, the Fund's total market value decreased by £64.2m to £2,216.0m. The Total Fund has decreased in value by £166.7m in 12 months to 30 September 2022.
1.04	It is appropriate to measure performance at a Total Fund level by comparing to a number of different targets:

	• The first of these is the assumed return that the Actuary includes within the triennial valuation - **Actuarial Target.** This is the most crucial target as actual performance needs to be ahead of this to ensure that the Fund maintains, or improves its funding level. This currently set at CPI (Consumer Price Index) +1.75% p.a. for past service liabilities and CPI + 2.25% for future service liabilities. • The second performance measure is the overall assessment of potential return when the Fund reviews and sets its investment strategy – **Strategic Target.** (This is currently CPI +3.4% p.a.) • The final target is the composite benchmark – **Total Benchmark.** This is a composite of each of the individual manager benchmarks, weighted by strategic target allocation. For most investment managers the benchmark does not include an expectation of outperformance, with the exception of WPP Global Opportunities Equity Fund, WPP Emerging Market Equity Fund and Wellington Emerging Market Equities which have since been disinvested (October 2021) but contribute towards long term performance. The performance against all benchmarks is shown on Page 6 of the report, and repeated below:

Total	Quarter (%)	1 Year (%)	3 Years (%)
Total Scheme	**-2.5**	**-6.5**	**4.1**
Total Benchmark	-3.6	-7.0	3.6
Strategic Target (CPI +3.4% p.a.)	2.5	13.5	8.0
Actuarial Target – Past Service Liabilities (CPI +1.75% p.a.)	2.1	12.0	6.3
Actuarial Target – Future Service Liabilities (CPI +2.25% p.a.)	2.2	12.6	6.8

1.05	The strongest absolute returns over the quarter came from Private Markets and the BlackRock World ESG Equity portfolio. The Private Markets portfolio returned +6.1% and the BlackRock World ESG Equity portfolio returned +3.5%. Within Private Markets the strongest returns were seen in Local/Impact and Infrastructure with returns of +11.6% and +11.2%, respectively. Russell WPP Global Opportunities and Hedge Funds also generated positive returns over the quarter, returning +2.7% and +1.7 respectively. In the 12 months to 30 September 2022, the best returns came from Private Markets and the Tactical Allocation. Private Markets returning +24.6% whilst the Tactical Allocation portfolio returned +5.8%. The performance of individual managers is shown in the report and is regularly reviewed by Officers and advisers. At this stage there are no concerns that need addressing, however all positions are being monitored closely.

1.06	All portfolio allocations held sit within the agreed strategic tolerance with the exception of property within Private Markets, which is marginally overweight. Following volatile gilt market movements over Q2 2022, the CRMF portfolio is underweight. This section of the portfolio is monitored closely and has been restructured post quarter end, following the extreme gilt market movements experienced in October and for which further detail has been provided in the Funding and Risk Management reports though further information will also be provided verbally within this agenda item.
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	The Fund's investment strategy has been designed to provide an appropriate trade-off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.
4.02	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.03	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound.
5.00	**APPENDICES**
5.01	Appendix 1 - Economic and Market Update – 30 September 2022 Appendix 2 – Performance Monitoring Report – 30 September 2022

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update and Investment Strategy and Manager Summary 30 September 2022. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk
7.00	**GLOSSARY OF TERMS**
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cash flows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cash flows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cash flows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cash flows. **A comprehensive list of investment terms can be found via the following link:** https://www.schroders.com/en/uk/adviser/tools/glossary/

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Clwyd Pension Fund

Economic and Market Update – Q3 2022

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Monthly Capital Market Monitor

September 2022

Nowhere to hide in a difficult month for investors

September 2022 left few portfolios unscathed in a major drawdown that affected all asset classes in public markets. Equities sold off across the board. Fears of more monetary policy tightening appear to be the primary cause, as inflation continued to surprise to the upside in most countries. The sell-off was broad based across sectors and regions with emerging market equities faring worse than developed markets. US dollar strength weighed on foreign market returns for US investors but boosted returns somewhat for unhedged sterling investors. Equity market volatility returned to the heights seen in early summer.

Bond returns were also negative after another meaningful rise in yields as central banks in most regions continued to tighten monetary policy. The UK bond market suffered a major sell-off after investors deemed an extraordinary budget fiscally unsound. This forced the Bank of England to launch a temporary bond purchase program targeting the longer end of the curve after soaring yields led to a scramble for collateral by UK pension plans to meet margin calls from leveraged fund vehicles used for liability hedging[1]. Leveraged debt markets were also caught in the risk-off environment with high yield spreads rising substantially over the month.

Commodities indices were not spared from the drawdown this time as the deteriorating economic outlook superseded supply concerns. Oil fell substantially over the month which brought some relief to consumers, although oil has rebounded in early October on the potential for an OPEC production cut.

US inflation for August was a major driver of negative market sentiment. Even as headline CPI continued to decline from its previous peak, core inflation gained pace, suggesting that inflation momentum remains strong across all sectors. Investors interpreted this as a sign that monetary tightening is likely to continue over the near-term.

Geopolitics remained in the forefront. Russia suffered major defeats in Ukraine, announced a partial military mobilization and continued to suggest that further escalation was possible. The Nord Stream pipelines also appear to have been sabotaged. Elections in Italy and Brazil have brought additional uncertainty.

Sterling's performance over the month was mixed. After falling to multi-decade low versus the dollar following the announcement of the extraordinary budget, sterling made back most of its losses in the following days. Sterling strengthened versus a broad basket of currencies such as the Yen, Canadian dollar, Australian dollar, New Zealand dollar and the Norwegian krone. However, sterling weakened versus the US dollar, the euro and the Swiss franc.

At a Glance
Market Returns in % as of end of September 2022 in GBP

Major Asset Class Returns	1M	YTD	1Y
MSCI ACWI	-5.7	-9.8	-4.2
S&P 500	-5.4	-7.6	2.1
FTSE All Share	-5.9	-7.9	-4.0
MSCI World ex-UK	-5.4	-9.5	-2.7
MSCI EM	-8.0	-11.6	-13.2
Bloomberg Barclays Global Aggregate	-1.1	-2.8	-3.9
ICE Bank of America Sterling Non-Gilt index	-8.5	-22.6	-22.2
Bloomberg Barclays High Yield	-0.1	2.5	2.8
FTSE WGBI	-0.1	-3.6	-5.1
FTA UK Over 15 year gilts	-11.1	-38.9	-35.5
FTA UK 5+ year ILG's	-7.8	-32.9	-29.3
NAREIT Global REITs	-8.6	-14.4	-5.9
Bloomberg Commodity TR	-4.2	37.8	35.0

Source: Refinitiv; as of 30/9/22

Past performance is no guarantee of future results. Returns in GBP unless stated otherwise

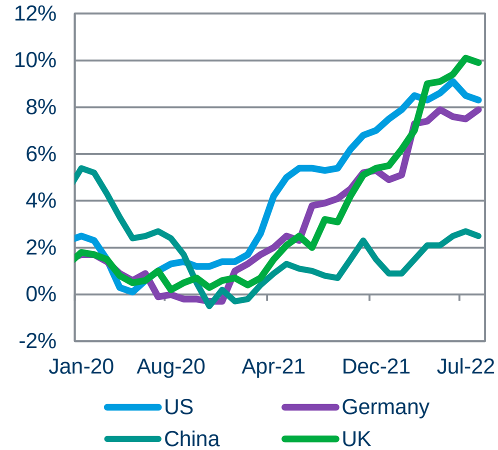
[1] https://www.mercer.com/our-thinking/wealth/rich-nuzum-implications-for-derivatives-investors.html

Market drivers

Summer sell-off intensifies amid policy headwinds

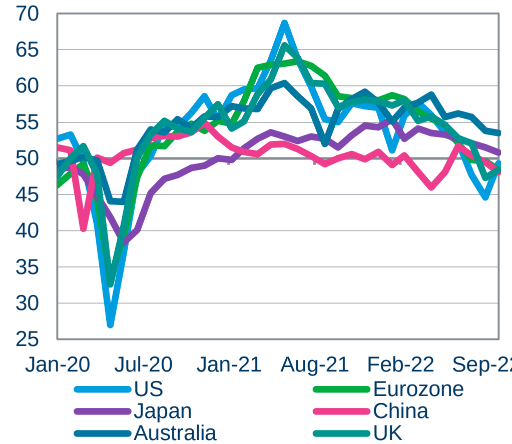
- Virtually all major asset classes moved lower during September as inflation figures continued to suggest more monetary tightening globally. In addition, poor economic data has led corporate America to highlight deteriorating business conditions, and investor sentiment remained downbeat.
- In August, it had already become clear that early summer hopes of a slowdown in monetary tightening were unlikely. Another set of disappointing inflation figures for the US showed core inflation accelerating in August, which put additional pressure on the Federal Reserve to maintain its hawkish stance.
- Inflation rates in other major regions were equally discouraging. In the Eurozone, inflation continued to increase from the previous month. In the UK, inflation edged lower but was still just under 10%. Even Japan saw inflation rise to the highest level in eight years.
- Central banks kept hiking aggressively. A 75 basis point increase by the Federal Reserve pushed borrowing costs to the highest level since 2008. The European Central Bank increased by the same amount, while the Bank of England hiked by 50 basis points. Central banks in India, Switzerland, South Africa, Indonesia, Philippines, Vietnam and Sweden also hiked. Japan, China and Brazil were the only major regions that left rates unchanged. Combined with the dollar continuing to rally, the global economy remained in a profound liquidity squeeze.
- Other macro indicators also remained weak, except for labour markets. Purchasing manager indices remained in contraction territory for the US, UK and Europe and barely stayed in expansion territory for China and Japan. Mortgage rates in the US reached their highest level since 2008. Data from Germany suggested a recession there, and China saw a deceleration in exports amid slowing global growth. The UK went through a market sell-off after announcing extraordinary budget measures that markets deemed fiscally unsound. There was also anxiety around the fiscal plans Italy's newly elected government is expected to announce, creating the potential for a new political conflict between Italy and the EU.
- Geopolitical issues also remained concerning. Russia launched a large mobilization after suffering major defeats in Ukraine and threatened further escalation. Fighting between Armenia and Azerbaijan flared up again.

Consumer Price Index (Year-over-Year)



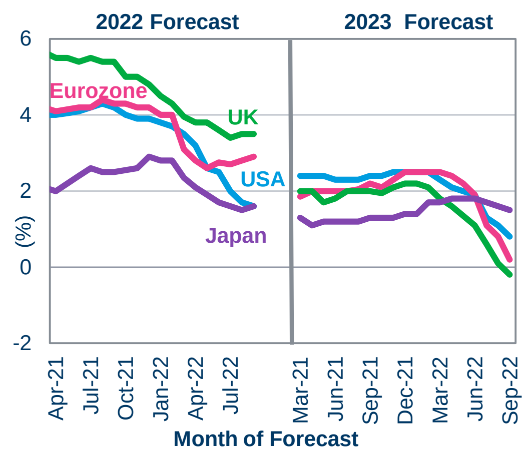
Source: Bloomberg; as of 31/08/22

Markit Manufacturing PMIs



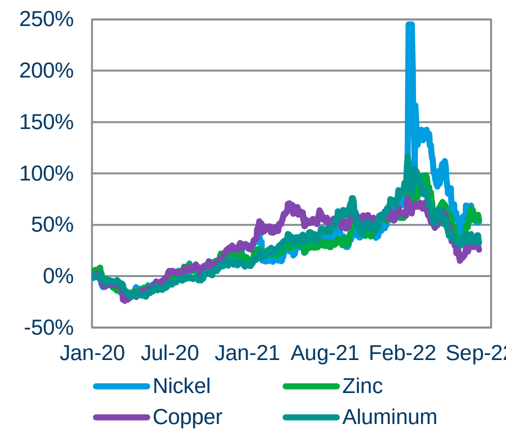
Source: Bloomberg; as of 30/09/22

Consensus GDP Growth Forecasts



Source: Bloomberg; as of 30/09/22

Commodity Prices



Source: Bloomberg; as of 30/09/22

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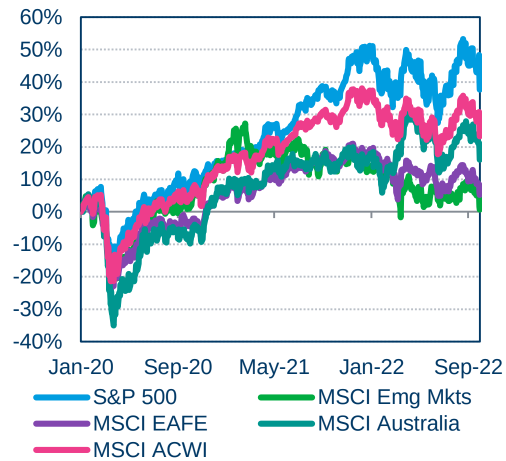
Equities

Major equity indices fall back into bear market territory

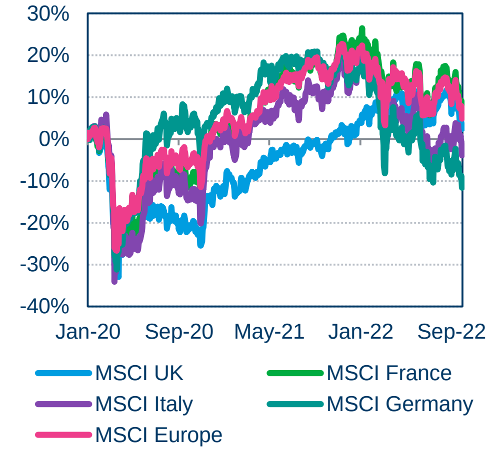
- September saw a continuation of the August drawdown which intensified mid-month after a brief reprieve. The MSCI ACWI, S&P 500 and FTSE all-share indices declined by 5.7%, 5.4% and 5.9% respectively.
- Investor sentiment continued to deteriorate in September and reached levels of peak negativity, according to the latest Bank of America Fund Manager Survey. Monetary policy is priced to be tighter for longer. Earnings expectations continue to decline amid weakening business conditions. A number of large US companies announced lay-offs and earnings results from FedEx were taken as a sign of broader weakness in the economy.
- Value modestly outperformed growth among large-cap stocks in September, while growth outperformed among the mid- and small-cap segments of the US market. The link between rising rates and growth stock underperformance appears to have broken down as the large rate increases over the month would have suggested more significant underperformance for growth stocks.
- On a sector level, there was nowhere to hide with all sectors posting negative absolute return, except for healthcare, as markets positioned for a broad slowdown. Healthcare fared best during September, while technology posted the most significant declines.
- Emerging markets underperformed developed markets, even after allowing for currency impact. Large Asian economies such as China, Taiwan and Korea posted negative returns in mid double digits. The primary drivers were slowing global growth hitting export demand, the downturn in China's housing market and disruptions due to Covid restrictions. This was somewhat offset by other large countries such as India and Brazil, which held up better during the month.
- Equity volatility rose further from already elevated levels reached in August and ended the month above 30. This brought volatility near the highs seen earlier this summer and in early 2021.

Global Equity Performance (GBP)



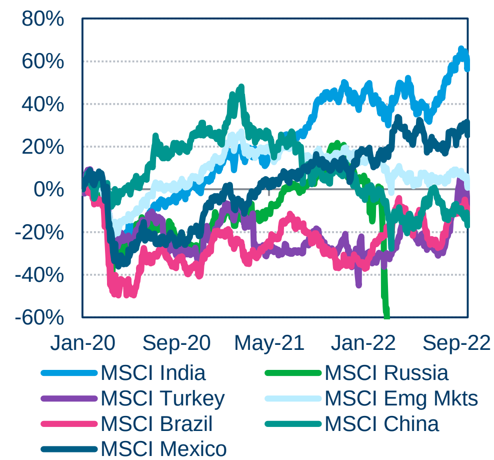
Source: Refinitiv, Data as at 30/09/2022

European Equity Performance (GBP)



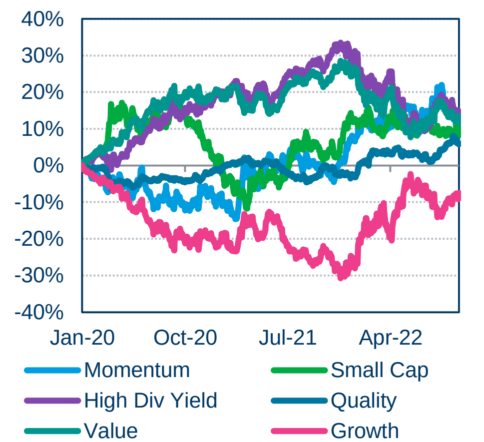
Source: Refinitiv, Data as at 30/09/2022

Emerging Market Equity Performance (GBP)



Source: Refinitiv, Data as at 30/09/2022

Individual Factor Returns versus MSCI USA (GBP)



Source: Refinitiv. Data as at 30/09/2022

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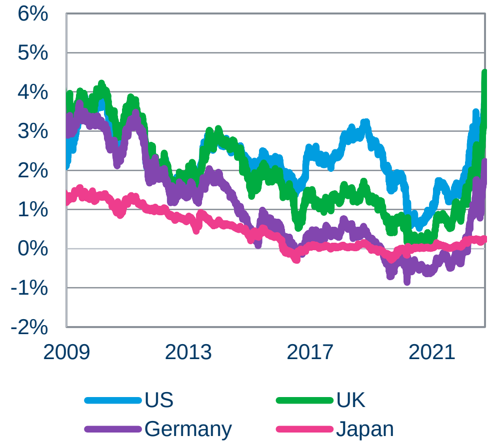
Mercer [1] *Bank of America Fund Manager Survey, September 2022*
https://insight.factset.com/largest-cuts-to-eps-estimates-for-sp-500-companies-for-q3-2022-in-more-than-two-years?

Fixed income

Bonds get hammered as hopes for monetary reprieve evaporate; bond sell-off in the UK

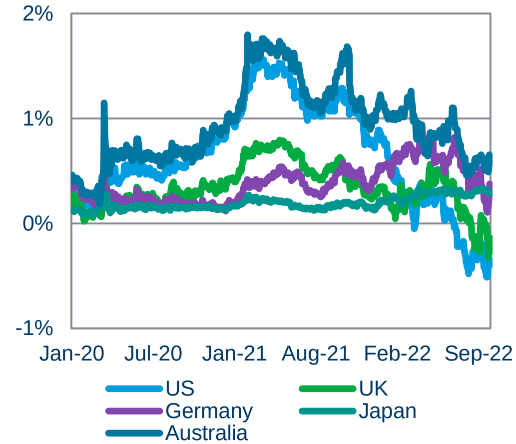
- Major developed bond yields rose sharply over the month. Discouraging inflation readings across the developed world made it likely that monetary tightening will continue for the foreseeable future.
- The UK went through a major government bond (gilt) sell-off after its government announced a budget that markets deemed fiscally unsound. The 10-year gilt yield soared by over 130 basis points and ended the month at over 4%, above the equivalent US yield for the first time in eight years. Markets positioned for the Bank of England having to double down on tightening in order to offset the expansionary budget at a time of record high inflation. Soaring yields led to a scramble for collateral by UK pension plans that often use leverage for liability hedging strategies, with some forced deleveraging by fund vehicles used by UK plans. This ultimately led the Bank of England to provide temporary liquidity support at the longer end of the yield curve.
- Ten-year and 30-year yields rose by 68 and 52 basis points respectively in the US. The impact of monetary tightening in the real economy could be seen by the 30-year mortgage rate rising above 6.5%, an increase of a 100 basis points in just a month.
- Inflation expectations for the UK, as measured by the 10-year inflation break-even rate, fell slightly to 4.17%. The market consensus remains that inflation will stabilize in the medium term, but will likely stay above pre-2020 levels for the foreseeable future. However, the UK faces an uncertain future with elevated energy costs and ongoing unfunded fiscal stimulus.
- High yield credit spreads rose by almost 70 bps over the month, as risk-off sentiment began to spill into leveraged debt on a larger scale than in previous months. Rising rates are beginning to have an impact on debt-laden firms that are also seeing their costs increase and revenues decline in the current environment. Investment grade spreads also rose, but to a lesser degree.
- Emerging market local currency debt declined 4.9% (USD), while hard currency debt fell over 6% (USD). Global monetary tightening, US dollar strength and the resulting liquidity crunch were major headwinds for emerging and frontier economies, especially for those with substantial US dollar liabilities and for those reliant on food and energy imports. The largest frontier economies that constitute almost a fifth of hard currency indices saw their spreads reaching distressed levels. A number of countries, such as Argentina, Pakistan and Sri Lanka, already had to negotiate relief measures with the IMF.

10-Year Government Bond Yields



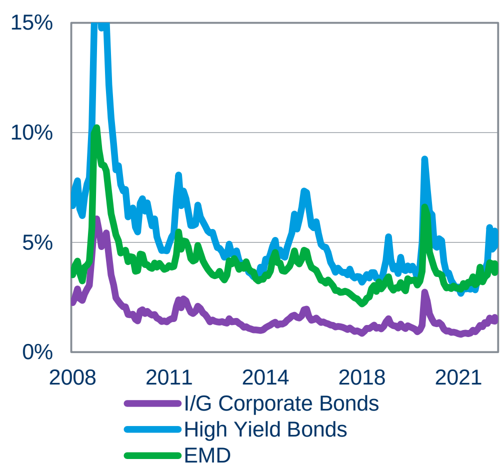
Source: Bloomberg; as of 30/09/22

10-Year minus 2-Year Yield Spread



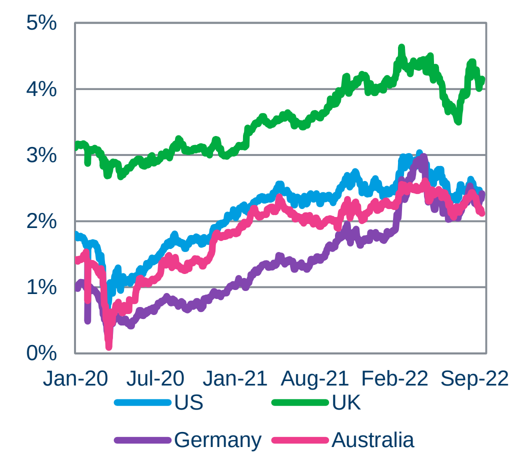
Source: Bloomberg; as of 30/09/22

Credit Spreads



Source: Bloomberg; as of 30/09/22

10-Year Inflation Breakeven Rates



Source: Bloomberg; as of 30/09/22

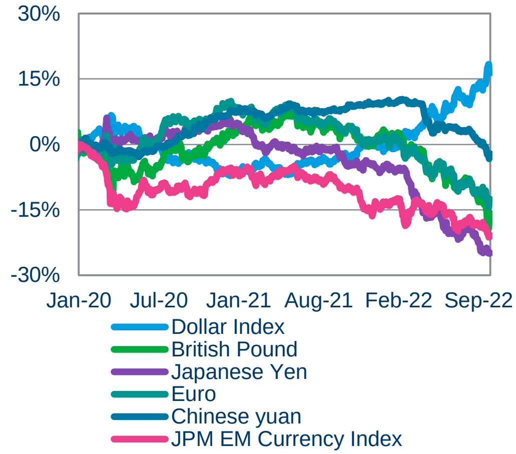
Past performance is no guarantee of future results. Returns in GBP unless stated otherwise.

Currencies, commodities and alternatives

US dollar continues its rise and commodities fall as economy slows

- Sterling collapsed over the month amid the UK market sell-off before recovering slightly from its lowest level since 1985. Year to date it has depreciated by almost 20% against US dollar.
- The US dollar kept soaring against most major developed and emerging market currencies, appreciating by almost 7% against the Australian dollar, over 4% against sterling and the Japanese yen, and 2.6% against the euro which is now trading below parity. Japan intervened in the foreign exchange market for the first time in over two decades. Korea also intervened.
- A strong dollar and another sharp increase in real rates led to gold falling by over 3% (USD), now down by 8.6% (USD), year-to-date. Unhedged UK investors saw gold increasing by 1% in sterling terms.
- Commodity indices declined considerably, with the more energy heavy S&P North American Natural Resources index down by 6.0%, more than global equities. Oil prices shed another 11.2% (USD) over the month, leaving oil up only 5.7% (USD) since the beginning of the year. Recession worries are overtaking concerns about supply constraints and geopolitical risk. However, oil prices have risen in early October on potential OPEC production cuts. Natural gas also fell substantially during the month, even as Russia suspended natural-gas flows to Europe and a pipeline was allegedly sabotaged.
- Global REITs gave negative returns of 8.6% during the month driven by equity beta and a weakening housing market amid higher mortgage rates. Commercial properties are also at risk of deteriorating economic conditions.
- Hedge funds provided a meaningful diversification benefit during September. The HFRX Equal Weighted Strategies index decreased 1.0% (USD) over the month, outperforming the -3.4% return for a 60% MSCI ACWI / 40% Bloomberg Aggregate (USD) portfolio by a wide margin. Performance was strong for macro hedge funds which posted positive returns, offsetting negative performance for relative value and equity strategies. Event-driven strategies were only marginally down.

Currency Returns

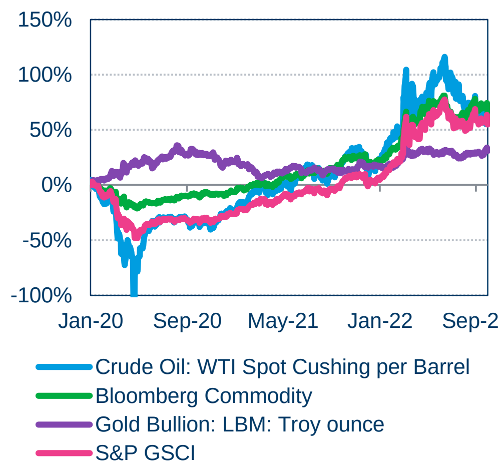


Source: Bloomberg; as of 30/09/22

Gold & Bitcoin

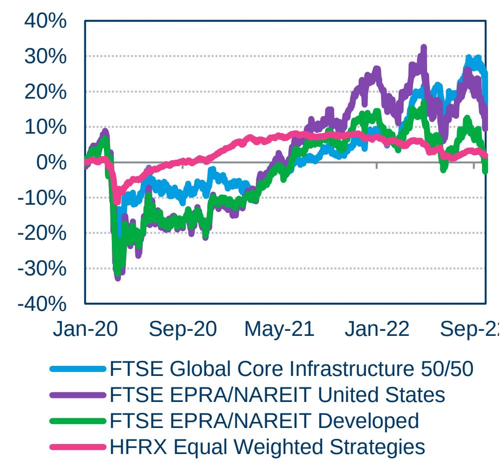
Source: Refinitiv, Bloomberg. Data as at 30/09/2022

Commodities



Source: Refinitiv, Data as at 30/09/2022

REITs, Hedge Funds, Infrastructure



Source: Refinitiv, Data as at 30/09/2022

Past performance is no guarantee of future results. Returns in GBP unless stated otherwise.

Valuations and yields

Ending 30 September 2022

Valuations

FTSE ALL-Share	30-09-2022	30-06-2022	31-03-2022	31-12-2021
Index Level	7706.0	7981.3	8404.7	8363.9
P/E Ratio (Trailing)	13.0	16.6	14.7	21.0
CAPE Ratio	16.4	18.5	19.9	19.6
Dividend Yield	4.0	4.1	3.5	3.6
P/B	1.5	1.7	1.8	1.8
P/CF	4.8	5.8	6.4	7.5
MSCI World ex-UK	**30-09-2022**	**30-06-2022**	**31-03-2022**	**31-12-2021**
Index Level	7187.2	7644.0	9147.4	9674.6
P/E Ratio (Trailing)	15.6	16.6	20.5	23.5
CAPE Ratio	23.4	24.9	29.1	33.4
Dividend Yield	2.3	2.2	1.8	1.6
P/B	2.6	2.6	3.2	3.4
P/CF	9.8	11.0	14.1	14.4
MSCI EM	**30-09-2022**	**30-06-2022**	**31-03-2022**	**31-12-2021**
Index Level	443.1	501.1	565.8	608.3
P/E Ratio (Trailing)	11.5	12.5	14.0	21.7
CAPE Ratio	10.1	12.5	13.7	14.5
Dividend Yield	3.6	3.1	2.5	2.0
P/B	1.5	1.7	1.8	2.0
P/CF	6.7	8.5	8.3	9.4

Source: Bloomberg, Refinitiv

Yields

Global Bonds	30-09-2022	30-06-2022	31-03-2022	31-12-2021
Germany – 10Y	2.11	1.34	0.55	-0.18
France - 10Y	2.72	1.92	0.98	0.20
US - 10Y	3.83	3.01	2.34	1.51
Switzerland – 10Y	1.23	1.07	0.60	-0.14
Italy – 10Y	4.52	3.26	2.04	1.17
Spain 10Y	3.29	2.42	1.44	0.57
Japan – 10Y	0.24	0.23	0.22	0.07
Euro Corporate	4.24	3.29	1.55	0.52
Euro High Yield	9.01	7.81	5.18	3.55
EMD ($)	9.57	8.56	6.42	5.27
EMD (LCL)	7.32	7.30	6.48	5.87
US Corporate	5.69	4.70	3.60	2.33
US Corporate High Yield	9.68	8.80	6.01	4.21
UK Bonds	30-09-2022	**30-06-2022**	**31-03-2022**	**31-12-2021**
SONIA	2.19	1.19	0.69	0.19
10 year gilt yield	4.10	2.21	1.59	0.97
30 year gilt yield	3.83	2.56	1.75	1.13
10 year index linked gilt yield	0.07	-1.40	-2.74	-2.95
30 year index linked gilt yield	0.07	-0.68	-1.92	-2.27
AA corporate bond yield	5.62	3.40	2.38	1.46
A corporate bond yield	6.05	3.70	2.61	1.68
BBB corporate bond yield	6.96	4.47	3.25	2.16

Source: Bloomberg, Refinitiv

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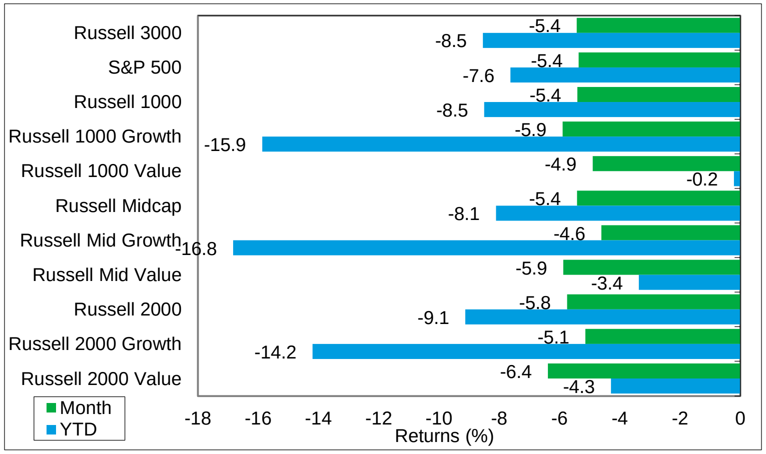
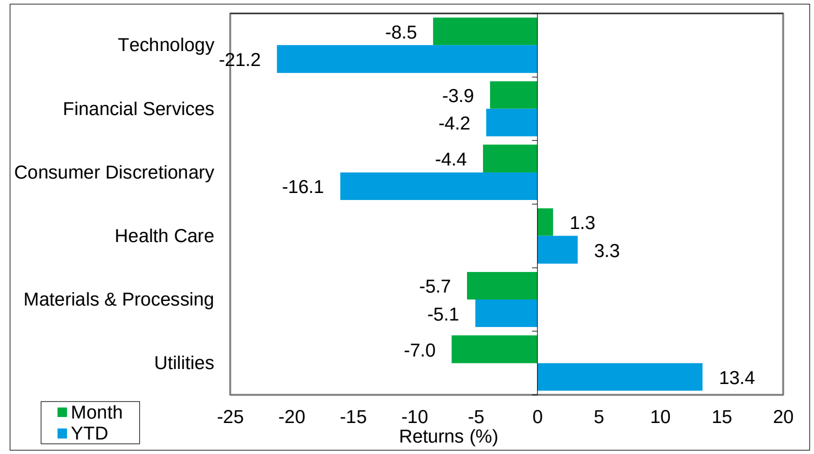
Performance Summary

US Equity ending 30 September 2022

Style and Capitalization Market Performance



Russell 1000 Sector Performance



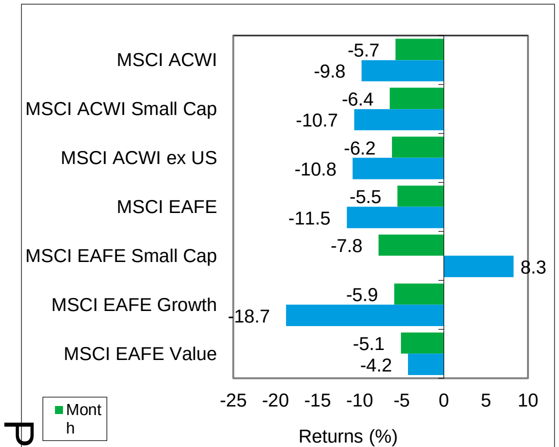
Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2021	2020	2019	2018	2017
S&P 500	-5.4	3.5	-7.6	2.1	12.8	11.8	13.3	16.4	15.9	11.7	29.9	14.7	26.4	1.6	11.3
Russell 3000	-5.4	3.9	-8.5	-0.5	12.2	11.3	12.7	15.8	15.6	11.8	26.8	17.2	26.0	0.6	10.6
Russell 3000 Growth	-5.9	5.1	-15.8	-7.0	6.7	13.9	15.7	18.3	17.6	12.9	27.0	34.0	30.6	4.0	18.4
Russell 3000 Value	-5.0	2.7	-0.5	6.6	18.2	7.9	9.1	12.9	13.2	10.6	26.5	-0.3	21.4	-2.9	3.4
Russell 1000	-5.4	3.8	-8.5	0.0	12.1	11.6	13.1	16.1	15.8	11.9	27.6	17.2	26.4	1.1	11.2
Russell 1000 Growth	-5.9	4.9	-15.9	-6.5	6.8	14.4	16.4	18.8	18.0	12.9	28.8	34.2	31.1	4.6	18.9
Russell 1000 Value	-4.9	2.7	-0.2	7.1	17.7	7.9	9.2	13.0	13.3	10.5	26.3	-0.4	21.7	-2.6	3.8
Russell Midcap	-5.4	5.1	-8.1	-2.6	13.5	8.7	10.5	13.6	14.4	12.7	23.7	13.5	25.5	-3.4	8.3
Russell Mid Growth	-4.6	8.1	-16.8	-14.8	3.2	7.8	11.7	14.4	15.0	12.9	13.8	31.4	30.2	1.2	14.4
Russell Mid Value	-5.9	3.4	-3.4	4.4	19.4	8.0	8.7	12.5	13.6	12.1	29.5	1.7	22.2	-6.8	3.5
Russell 2500	-5.7	5.7	-7.8	-4.7	15.1	8.9	9.4	13.2	13.7	12.1	19.3	16.3	22.8	-4.4	6.7
Russell 2500 Growth	-4.7	8.7	-14.5	-14.7	3.9	8.3	10.3	13.7	14.5	12.7	6.0	36.1	27.5	-1.7	13.7
Russell 2500 Value	-6.3	3.9	-3.4	2.2	23.0	8.0	7.7	12.1	12.5	11.3	29.0	1.6	18.8	-6.9	0.8
Russell 2000	-5.8	6.4	-9.1	-7.6	14.4	7.8	7.4	12.3	12.6	11.2	15.9	16.3	20.7	-5.5	4.7
Russell 2000 Growth	-5.1	9.1	-14.2	-14.6	4.5	6.4	7.5	11.9	12.9	11.6	3.8	30.5	23.5	-3.7	11.6
Russell 2000 Value	-6.4	3.8	-4.3	-0.6	25.0	8.2	6.7	12.2	12.0	10.7	29.5	1.4	17.7	-7.4	-1.5
Russell 1000 Technology	-8.5	0.5	-21.2	-10.4	7.9	18.2	20.0	23.7	20.6	15.2	38.4	42.2	41.5	4.9	26.4
Russell 1000 Financial Services	-3.9	5.6	-4.2	0.5	23.5	10.8	12.7	16.2	16.8	10.0	36.3	3.9	28.6	-2.4	11.0
Russell 1000 Consumer Discretionary	-4.4	12.5	-16.1	-9.2	4.3	10.8	14.6	15.9	17.1	13.1	18.4	38.5	24.2	6.1	13.4
Russell 1000 Health Care	1.3	2.7	3.3	12.2	14.7	15.7	14.2	15.7	18.0	12.2	24.4	13.4	16.8	13.2	11.5
Russell 1000 Energy	-5.3	13.6	63.7	75.6	75.1	18.1	10.3	11.5	7.1	10.5	52.7	-33.0	6.5	-13.5	-9.7
Russell 1000 Producer Durables	-6.8	3.7	-8.9	-4.4	8.3	4.5	7.5	13.2	14.1	10.9	17.2	8.4	25.7	-6.9	12.1
Russell 1000 Materials & Processing	-5.7	0.6	-5.1	7.1	13.9	10.7	9.5	15.1	12.8	8.8	26.5	13.9	21.6	-11.1	13.1
Russell 1000 Consumer Staples	-4.1	1.2	10.6	23.9	15.6	10.1	10.2	11.9	13.2	10.1	19.3	3.8	19.3	-4.1	0.3
Russell 1000 Utilities	-7.0	3.7	13.4	27.3	17.2	7.6	11.3	14.1	12.5	9.4	19.8	-3.2	21.3	6.1	-3.0

Source: Bloomberg, Refinitiv

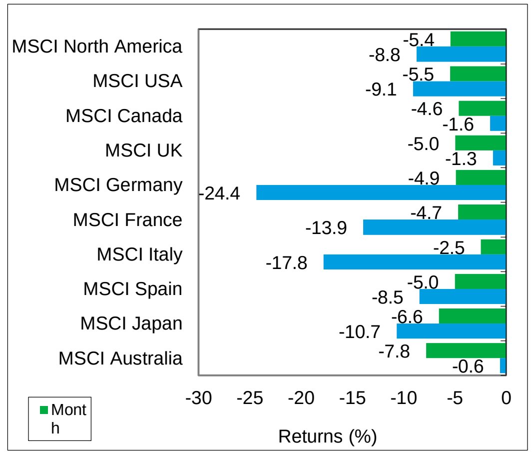
Performance Summary

International Equity ending 30 September 2022

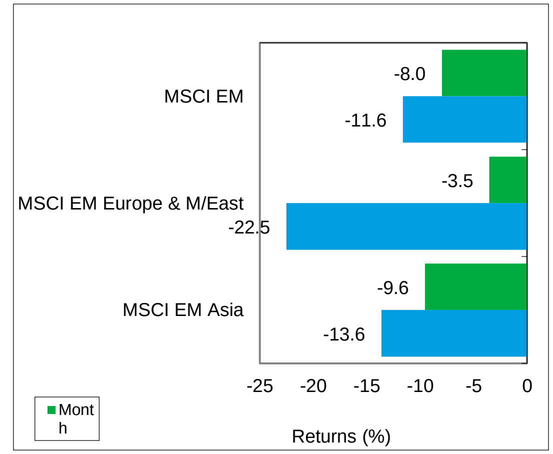
International Equity Performance



Developed Country Performance



Emerging Market Performance



Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2021	2020	2019	2018	2017
MSCI ACWI	-5.7	1.4	-9.8	-4.2	8.2	7.2	8.4	12.2	11.3	9.8	19.6	12.7	21.7	-3.8	13.2
MSCI ACWI IMI	-5.8	1.7	-9.5	-4.3	9.0	7.6	8.6	12.6	11.8	10.6	19.8	13.2	22.1	-4.0	13.8
MSCI ACWI Small Cap	-6.4	3.1	-10.7	-9.2	10.7	6.4	6.2	11.0	11.0	11.5	17.2	12.7	19.8	-9.1	13.1
MSCI ACWI ex US	-6.2	-2.0	-10.8	-9.6	3.6	1.8	2.9	7.9	6.9	8.2	8.8	7.2	16.8	-8.9	16.2
MSCI EAFE	-5.5	-1.4	-11.5	-9.6	4.4	1.5	2.9	7.4	7.6	7.7	12.3	4.5	17.3	-8.4	14.2
MSCI EAFE Growth	-5.9	-0.5	-18.7	-15.8	-1.2	1.8	4.4	8.6	8.6	8.1	12.3	14.6	23.0	-7.4	17.7
MSCI EAFE Value	-5.1	-2.3	-4.2	-3.6	9.9	0.5	0.9	5.9	6.2	7.2	11.9	-5.6	11.6	-9.5	10.9
EM	-8.0	-3.8	-11.6	-13.2	-0.8	1.2	1.9	8.5	4.8	10.6	-1.6	14.7	13.8	-9.3	25.4
North America	-5.4	3.4	-8.8	-0.2	11.6	11.0	12.4	15.4	14.7	11.1	27.6	16.2	25.7	0.1	10.4
Europe	-4.8	-2.2	-13.6	-9.2	5.3	1.6	2.5	6.9	7.3	7.9	17.4	2.1	19.0	-9.6	14.6
EM Europe & M/East	-3.5	6.0	-22.5	-25.2	2.4	-4.3	0.1	5.4	0.1	6.9	25.1	-10.4	14.6	-2.2	5.8
EM Asia	-9.6	-6.5	-13.6	-14.9	-3.6	2.5	2.6	9.3	7.0	10.6	-4.2	24.4	14.6	-10.2	30.5
Latin America	0.8	12.7	25.0	21.1	21.6	-0.2	1.0	9.7	1.4	12.2	-7.2	-16.5	12.9	-0.8	13.0
USA	-5.5	3.6	-9.1	-0.5	11.4	11.2	12.7	15.6	15.2	11.2	27.6	17.0	25.8	0.9	10.7
Canada	-4.6	0.1	-1.6	5.0	16.1	7.6	7.3	11.3	6.9	10.5	27.1	2.1	22.6	-12.1	6.0
Australia	-7.8	1.5	-0.6	1.0	12.9	3.9	6.2	11.2	7.0	10.9	10.4	5.4	18.2	-6.5	9.6
UK	-5.0	-2.9	-1.3	3.8	14.3	1.6	2.6	5.9	5.7	7.0	19.6	-13.2	16.4	-8.8	11.7
Germany	-4.9	-4.9	-24.4	-24.1	-7.9	-3.9	-3.2	4.0	5.1	8.3	6.3	8.1	16.1	-17.3	16.6
France	-4.7	-0.9	-13.9	-8.2	8.7	1.9	3.4	8.8	9.1	8.2	20.6	0.9	20.9	-7.3	17.6
Italy	-2.5	-0.5	-17.8	-13.6	5.1	-1.8	-0.5	3.4	5.3	3.8	16.1	-1.3	22.4	-12.6	17.3
Spain	-5.0	-6.5	-8.5	-10.2	6.4	-5.2	-4.2	1.8	3.7	6.7	2.3	-7.7	7.7	-11.0	16.0
Japan	-6.6	0.4	-10.7	-14.6	0.0	0.6	3.1	7.7	8.8	6.1	2.6	10.9	15.0	-7.5	13.3
Brazil	0.8	18.1	35.3	26.0	20.9	-2.0	2.0	14.2	2.1	14.9	-16.6	-21.5	21.4	5.7	13.4
China	-10.9	-15.7	-16.6	-22.0	-16.7	-4.1	-2.0	6.3	6.2	11.8	-21.0	25.5	18.7	-13.8	40.7
India	-2.5	15.9	9.5	8.8	26.4	15.2	12.0	13.4	11.3	15.3	27.4	12.0	3.4	-1.5	26.7
Russia	0.0	0.0	-100.0	-100.0	-99.9	-98.8	-92.5	-83.1	-72.4	-44.0	20.1	-15.2	45.1	5.8	-3.9

Source: Bloomberg, Refinitiv

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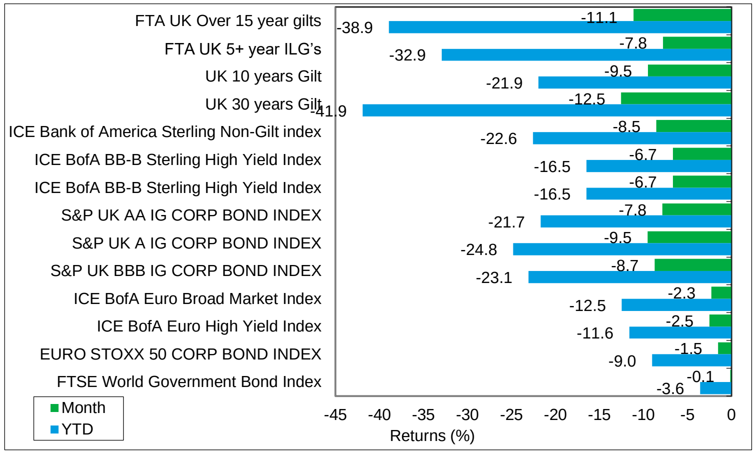
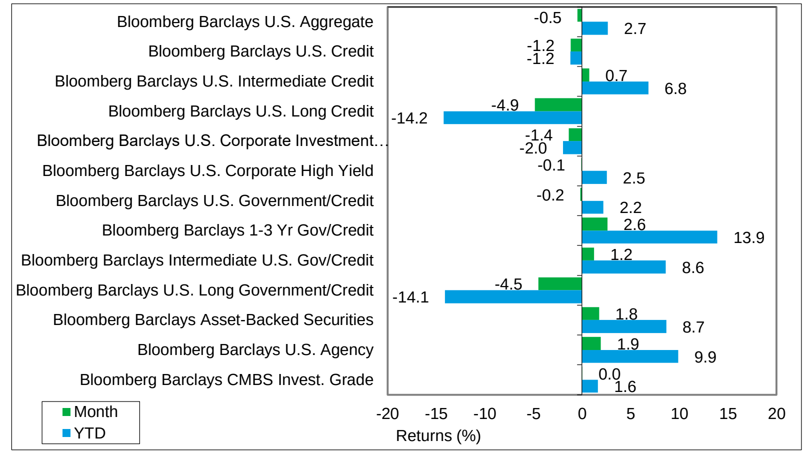
Performance Summary

Fixed Income ending 30 September 2022

Bond Performance by Duration



Sector, Credit, and Global Bond Performance



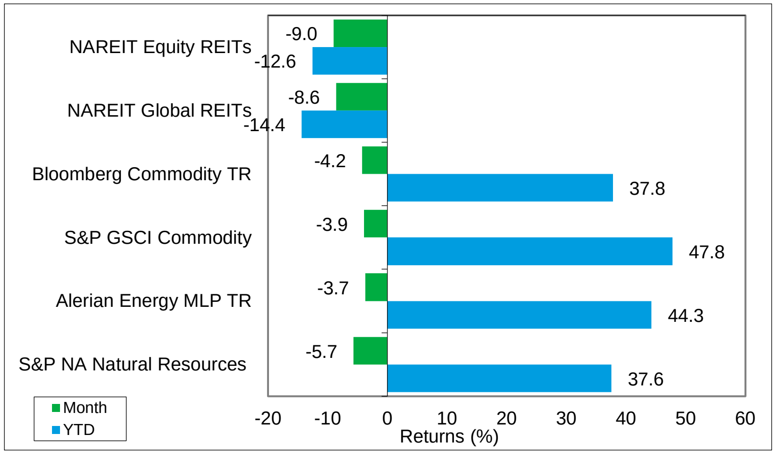
Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2021	2020	2019	2018	2017
FTA UK Over 15 year gilts	-11.1	-18.8	-38.9	-35.5	-24.3	-15.5	-5.6	-2.0	0.5	3.6	-7.3	13.9	12.0	0.3	3.3
FTA UK 5+ year ILG's	-7.8	-10.6	-32.9	-29.3	-15.8	-10.7	-2.8	0.8	3.3	5.3	4.2	12.4	6.8	-0.4	2.5
UK 10 years Gilt	-9.5	-13.2	-21.9	-21.4	-14.1	-8.7	-3.0	-1.0	0.3	3.6	-5.7	6.6	5.2	2.0	2.7
UK 30 years Gilt	-12.5	-21.3	-41.9	-38.8	-25.9	-16.7	-6.3	-2.8	0.3	3.3	-6.4	13.8	11.7	0.4	3.1
ICE Bank of America Sterling Non-Gilt index	-8.5	-11.6	-22.6	-22.2	-12.0	-7.0	-2.3	0.2	1.6	3.7	-3.0	8.0	9.5	-1.6	4.3
ICE BofA BB-B Sterling High Yield Index	-6.7	-4.8	-16.5	-17.0	-4.5	-2.1	0.7	3.2	5.2	10.1	3.0	6.1	13.8	-1.4	8.2
S&P UK AA IG CORP BOND INDEX	-7.8	-10.8	-21.7	-21.0	-12.4	-7.3	-2.6	0.0	1.1	3.5	-4.8	7.7	7.3	-0.3	3.2
S&P UK A IG CORP BOND INDEX	-9.5	-12.9	-24.8	-24.0	-13.6	-8.0	-2.8	0.0	1.4	3.7	-3.9	8.4	10.4	-1.5	3.6
S&P UK BBB IG CORP BOND INDEX	-8.7	-11.5	-23.1	-22.8	-11.4	-6.4	-1.9	0.7	2.1	4.6	-2.4	8.7	11.6	-2.6	5.5
ICE BofA Euro Broad Market Index	-2.3	-2.9	-12.5	-14.9	-10.7	-6.3	-2.0	1.7	2.0	4.6	-8.8	9.9	0.1	1.6	4.7
ICE BofA Euro High Yield Index	-2.5	1.6	-11.6	-13.9	-5.6	-3.1	-0.7	4.4	4.4	9.2	-3.1	8.6	5.1	-2.5	11.0
EURO STOXX 50 CORP BOND INDEX	-1.5	-1.4	-9.0	-11.6	-8.1	-4.5	-1.7	2.1	1.9	--	-7.2	8.5	-0.9	0.1	5.5
FTSE World Government Bond Index	-0.1	1.5	-3.6	-5.1	-6.2	-3.6	0.8	3.3	2.0	4.2	-6.1	6.7	1.8	5.3	-1.8
Bloomberg Barclays U.S. Aggregate	-0.5	3.2	2.7	2.2	-1.3	-0.2	3.2	4.7	4.4	4.6	-0.7	4.3	4.6	5.8	-4.9
Bloomberg Barclays U.S. Credit	-1.2	3.1	-1.2	-1.4	-2.0	-0.5	3.5	5.7	5.2	5.6	-0.2	6.0	9.4	3.7	-2.7
Bloomberg Barclays U.S. Intermediate Credit	0.7	5.1	6.8	5.8	1.3	1.4	4.2	5.7	5.2	5.3	-0.1	3.8	5.4	5.9	-4.9
Bloomberg Barclays U.S. Long Credit	-4.9	-0.7	-14.2	-13.3	-7.8	-4.0	2.4	6.0	5.4	6.7	-0.3	9.8	18.6	-1.1	2.7
Bloomberg Barclays U.S. Corporate Investment Grade	-1.4	3.0	-2.0	-2.2	-2.2	-0.5	3.6	5.8	5.3	5.7	-0.2	6.5	10.2	3.3	-2.5
Bloomberg Barclays U.S. Corporate High Yield	-0.1	7.6	2.5	2.8	4.8	2.7	5.1	8.4	7.5	8.7	6.1	3.9	10.0	3.6	-1.3
Bloomberg Barclays U.S. Government/Credit	-0.2	3.4	2.2	1.9	-1.6	0.0	3.5	5.0	4.6	4.8	-0.9	5.6	5.6	5.4	-4.6
Bloomberg Barclays 1-3 Yr Gov/Credit	2.6	6.4	13.9	12.8	4.4	2.6	4.1	4.8	4.2	3.5	0.4	0.4	0.3	7.2	-7.1
Bloomberg Barclays Intermediate U.S. Gov/Credit	1.2	5.0	8.6	7.5	1.5	1.5	3.9	5.0	4.5	4.4	-0.6	3.2	2.8	6.7	-6.2
Bloomberg Barclays U.S. Long Government/Credit	-4.5	-1.2	-14.1	-12.6	-9.8	-4.3	2.4	5.3	5.0	6.3	-1.6	12.5	15.0	1.1	1.4
Bloomberg Barclays CMBS Invest. Grade	0.0	2.3	1.6	0.7	-0.8	0.3	3.1	4.0	3.8	4.1	-0.4	5.2	4.9	4.7	-2.7
Bloomberg Barclays U.S. Mortgage Backed Securities	-0.7	3.1	4.4	3.5	-0.5	-0.4	2.7	4.1	4.1	4.4	-0.2	0.8	2.4	6.9	-5.9
Bloomberg Barclays Municipal Bond	-0.1	4.2	4.9	5.2	1.9	1.1	4.0	5.3	5.1	4.8	2.3	2.2	3.6	6.8	-2.8

Source: Bloomberg, Refinitiv

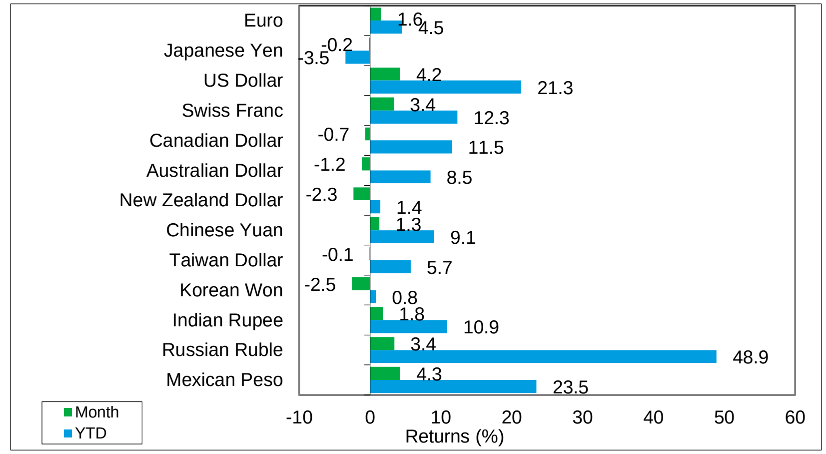
Performance Summary

Alternatives ending 30 September 2022

Real Asset Performance



Performance of Foreign Currencies versus the US Dollar



Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2021	2020	2019	2018	2017
NAREIT Equity REITs	-9.0	-3.0	-12.6	1.1	12.9	2.2	8.0	10.9	11.0	11.1	42.6	-8.1	23.7	1.9	-0.7
NAREIT Global REITs	-8.6	-3.6	-14.4	-5.9	8.6	-2.5	3.8	7.0	7.7	9.6	28.4	-11.0	18.3	1.2	1.8
Bloomberg Commodity TR	-4.2	4.3	37.8	35.0	35.7	17.3	11.0	9.1	1.5	3.2	28.3	-6.1	3.5	-5.7	-7.1
S&P GSCI Commodity	-3.9	-2.4	47.8	49.3	50.6	16.0	11.8	8.4	-0.3	1.4	41.6	-26.1	13.1	-8.5	-3.4
Alerian Energy MLP TR	-3.7	17.6	44.3	44.4	59.9	8.0	5.7	7.1	4.4	10.6	41.5	-30.9	2.4	-7.0	-14.6
Oil	-7.5	-18.2	28.2	28.0	51.3	17.5	13.1	13.3	2.2	6.7	56.4	-23.0	29.3	-20.2	2.7
Gold	1.0	0.6	10.9	14.9	1.1	7.8	9.4	10.7	3.1	10.4	-2.6	20.6	14.3	3.9	3.8
S&P NA Natural Resources	-5.7	6.5	37.6	48.1	47.8	15.1	8.7	11.2	5.8	9.7	41.2	-21.5	13.1	-16.2	-7.5
Euro	1.6	2.0	4.5	2.1	-1.6	-0.3	-0.1	2.5	1.0	1.7	-6.9	5.6	-5.6	1.1	4.0
Japanese Yen	-0.2	2.1	-3.5	-6.9	-8.1	-6.2	-1.3	1.7	-2.5	0.9	-10.3	2.0	-2.9	9.1	-5.4
US Dollar	4.2	8.8	21.3	20.8	7.6	3.4	3.7	4.5	3.8	1.7	-1.1	-3.1	-3.9	6.2	-8.7
Swiss Franc	3.4	5.8	12.3	14.5	4.0	3.8	3.4	4.3	3.3	--	-3.0	6.2	-2.1	5.0	-4.7
Canadian Dollar	-0.7	2.1	11.5	11.4	6.1	2.1	1.8	4.1	0.4	2.5	0.8	-1.4	1.3	-2.6	-2.2
Australian Dollar	-1.2	2.9	8.5	8.8	2.6	2.1	0.0	3.4	-1.0	2.6	-5.8	5.9	-4.0	-4.0	-1.6
New Zealand Dollar	-2.3	0.1	1.4	0.4	-0.1	0.2	-0.9	2.9	0.0	--	-5.0	3.1	-2.9	0.2	-6.9
Chinese Yuan	1.3	2.7	9.1	10.1	5.5	3.6	2.4	2.8	2.5	2.5	2.7	3.2	-5.2	0.7	-2.5
Taiwan Dollar	-0.1	1.9	5.7	6.0	2.8	2.6	2.8	5.0	2.9	2.2	1.3	3.4	-1.4	2.8	-1.1
Korean Won	-2.5	-1.3	0.8	0.0	-2.7	-2.6	-0.8	1.7	1.2	1.0	-8.7	3.2	-7.2	1.9	3.1
Indian Rupee	1.8	5.6	10.9	10.2	2.5	-1.3	-0.7	1.3	-0.6	-0.9	-1.9	-5.3	-6.0	-2.9	-2.9
Russian Ruble	3.4	-2.6	48.9	43.8	21.3	5.4	2.5	5.5	-3.0	-1.6	-1.0	-18.6	7.4	-11.9	-3.1
Brazilian Real	-0.2	5.2	24.9	21.7	9.9	-5.3	-6.8	0.0	-5.9	0.1	-6.8	-24.9	-7.4	-9.1	-10.4
Mexican Peso	4.3	9.2	23.5	23.4	12.8	2.7	1.7	1.9	-0.8	-1.7	-3.0	-8.2	0.3	5.5	-3.8
BofA ML All Convertibles	-2.0	9.1	-2.9	-3.4	8.6	13.8	13.4	14.9	14.3	10.9	7.6	41.7	18.4	6.4	3.9
60%S&P 500/40% Barc Agg	-3.4	3.4	-3.5	2.2	7.2	7.0	9.3	11.7	11.3	8.9	17.7	10.6	17.7	3.3	4.8

Source: Bloomberg, Refinitiv

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A business of Marsh McLennan

Clwyd Pension Fund

Monitoring Report Quarter to 30 September 2022

Kieran Harkin

November 2022

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- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

Kieran Harkin

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Overview

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Executive Dashboard

Page 6 Asset Allocation

Assets are broadly in line with their strategic target weights. Total Credit is underweight (-2.3%) and marginally outside the range. Cash and Risk Management Framework is also underweight (-5.9%), but within range. Cash and Total Private Markets are overweight (+3.9% and +3.2%, respectively), but within range.

Signal

Previous Qtr ●

Current Qtr ●

Asset Allocation vs Ranges

Total Credit is marginally outside the range.
Property (within Private Markets) is marginally outside the range.

Page 7 Investment Performance

The Fund returned -2.5% over the quarter against a benchmark of -3.6%. Over the one year and three year periods to 30 September 2022, the Fund returned -6.5% and 4.1% p.a. against a benchmark of -7.0% and 3.6% p.a., respectively.

Signal

Previous Qtr ●

Current Qtr ●

Performance vs Target

One year and three year performance are behind of the strategic target and the actuarial past service and future service liabilities targets.

Page 11 Manager Research

No significant news to report over the quarter.

Signal

Previous Qtr ●

Current Qtr ●

Additional Comments

The Fund's investment strategy is currently under review in conjunction with the triennial actuarial valuation as at 31 March 2022.

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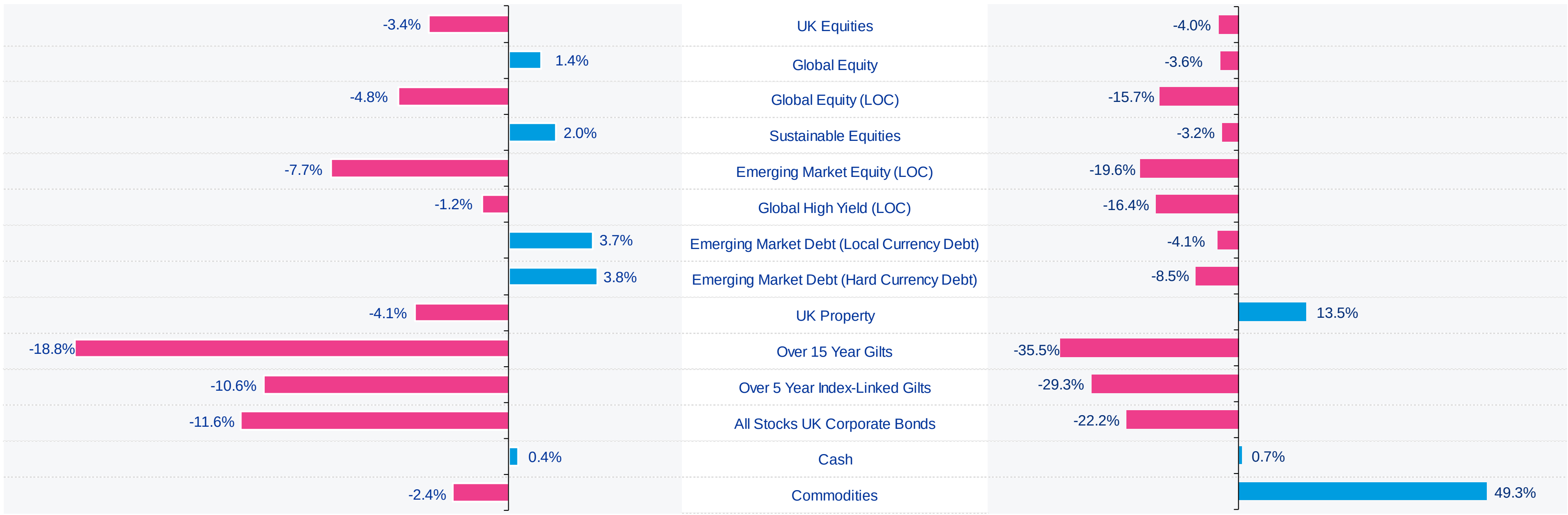
Market Conditions

	Values at (%)		Change (%)		
Yield / Spread	**30/09/2022**	**30/06/2022**	**3M**	**12M**	**3Y**
Over 5Y Index-Linked Gilts Yield	-0.16	-0.81	0.66	2.10	2.10
Over 15Y Fixed Interest Gilts Yield	3.74	2.56	1.15	2.38	2.80
Over 10 Year Non-Gilts Yield	6.20	4.29	1.83	3.77	3.87
Over 10 Year Non-Gilts Spread	2.07	1.75	0.31	0.97	0.59

	£1 is worth		Appreciation (%)		
Exchange Rates	**30/09/2022**	**30/06/2022**	**3M**	**1Y**	**3Y**
US Dollar ($)	1.116	1.214	-8.08	-17.21	-3.24
Euro (€)	1.140	1.162	-1.91	-2.06	0.27
100 Japanese Yen (¥)	1.616	1.650	-2.07	7.40	6.65

3 months to 30/09/2022 12 months to 30/09/2022



Source: Refinitiv. All returns are shown in sterling unless otherwise stated. Local currency returns (LOC) are an approximation of a currency hedged return.

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Is the crypto market slump a worrying sign for the future?

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Strategy Monitoring

2

Asset Allocation

	30/06/2022 Market Value (£M)	Net Cash Flow (£M)	Investment Growth/ Decline (£M)	30/09/2022 Market Value (£M)	30/06/2022 Allocation (%)	30/09/2022 Allocation (%)	30/09/2022 B'mark (%)	30/09/2022 B'mark Range (%)
Total	**2,280.2**	**-6.2**	**-58.0**	**2,216.0**	**100.0**	**100.0**	**100.0**	**--**
Total (ex-CRMF)	1,726.5	-3.5	29.0	1,752.0	75.7	79.1	77.0	--
Total CRMF	465.4	--	-87.0	378.4	20.4	17.1	23.0	10.0 - 35.0
Cash	88.3	-2.7	0.0	85.6	3.9	3.9	0.0	0.0 - 5.0

Source: Investment Managers and Mercer.
Figures may not sum to total due to rounding.

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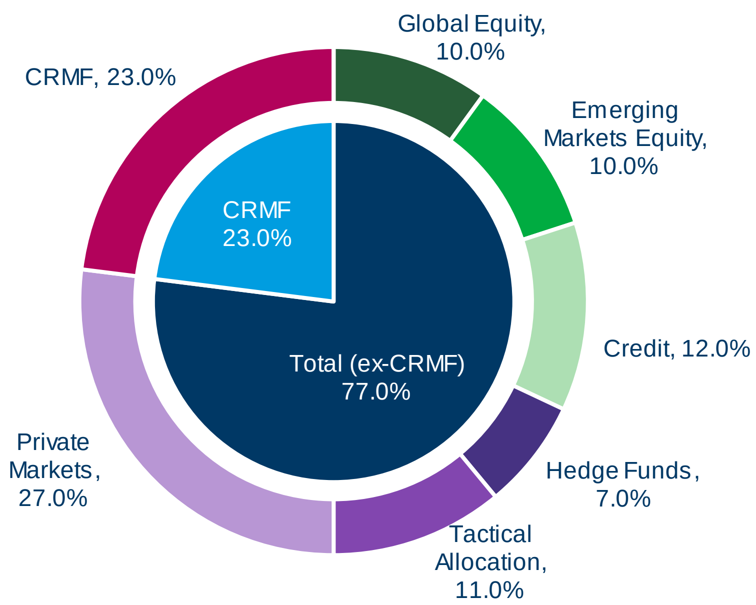
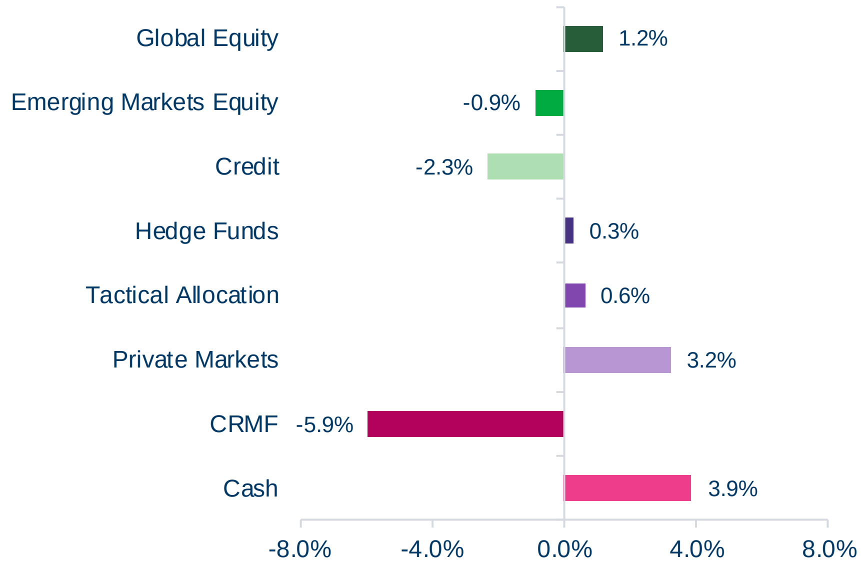
Benchmark Asset Allocation as at 30 September 2022



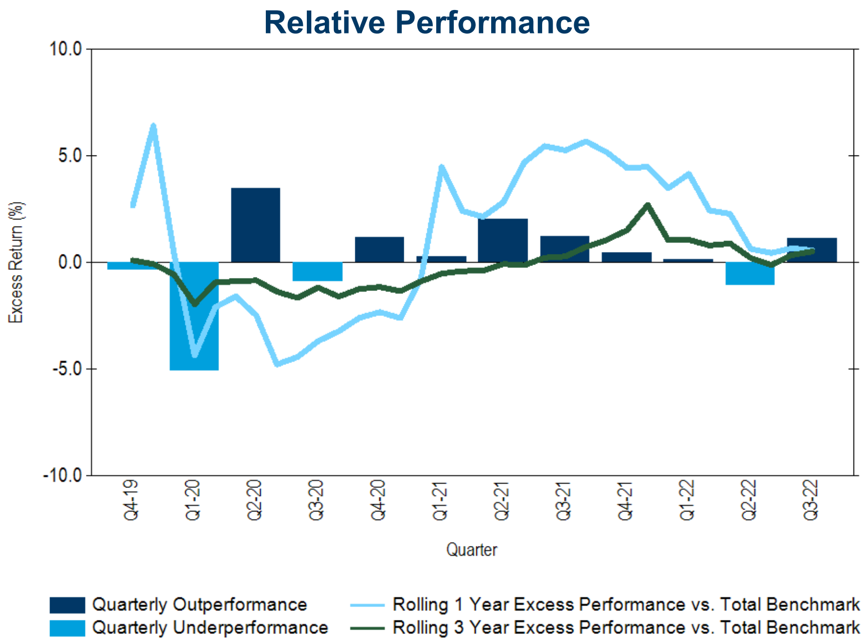
Deviation from Benchmark Asset Allocation



Investment Performance

	2022 Q3 (%)	1 Yr (%)	3 Yrs (% p.a.)
Total	**-2.5**	**-6.5**	**4.1**
Total Benchmark	-3.6	-7.0	3.6
Strategic Target (CPI +3.4% p.a.)	2.5	13.5	8.0
Actuarial Target - Past Service Liabilities (CPI +1.75% p.a.)	2.1	12.0	6.3
Actuarial Target - Future Service Liabilities (CPI + 2.25% p.a.)	2.2	12.6	6.8

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Refinitiv.
Strategic and Actuarial targets are derived from realised CPI over the corresponding periods. Prior to Q2 2022, CPI was based on Mercer's Market Forecasting Group assumptions.
For periods over one year the figures in the table above have been annualised.



Investment Manager Summary

3

Manager Allocation

	Investment Manager	30/06/2022 Market Value (£M)	Net Cash Flow (£M)	Investment Growth/ Decline (£M)	30/09/2022 Market Value (£M)	30/06/2022 Allocation (%)	30/09/2022 Allocation (%)	30/09/2022 B'mark (%)	30/09/2022 B'mark Range (%)
Total		**2,280.2**	**-6.2**	**-58.0**	**2,216.0**	**100.0**	**100.0**	**100.0**	**--**
Total (ex-CRMF)		**1,726.5**	**-3.5**	**29.0**	**1,752.0**	**75.7**	**79.1**	**77.0**	**--**
Total Equity		**449.4**	**--**	**-0.2**	**449.2**	**19.7**	**20.3**	**20.0**	**10.0 - 30.0**
Global Equity		**239.7**	**--**	**7.4**	**247.2**	**10.5**	**11.2**	**10.0**	**5.0 - 15.0**
WPP Global Opportunities	Russell	120.0	--	3.2	123.3	5.3	5.6	5.0	5.0 - 15.0
World ESG Equity	BlackRock	119.7	--	4.2	123.9	5.2	5.6	5.0	5.0 - 15.0
Emerging Markets Equity		**209.7**	**--**	**-7.6**	**202.1**	**9.2**	**9.1**	**10.0**	**5.0 - 15.0**
WPP Emerging Markets Equity	Russell	209.7	--	-7.6	202.1	9.2	9.1	10.0	5.0 - 15.0
Total Credit		**223.4**	**--**	**-8.8**	**214.6**	**9.8**	**9.7**	**12.0**	**10.0 - 14.0**
WPP Multi-Asset Credit	Russell	223.4	--	-8.8	214.6	9.8	9.7	12.0	10.0 - 14.0
Total Hedge Funds		**158.5**	**--**	**2.8**	**161.2**	**6.9**	**7.3**	**7.0**	**5.0 - 9.0**
Hedge Funds	Man	158.5	--	2.8	161.2	6.9	7.3	7.0	5.0 - 9.0
Total Tactical Allocation		**260.7**	**--**	**-3.4**	**257.3**	**11.4**	**11.6**	**11.0**	**9.0 - 13.0**
Best Ideas	Various	260.7	--	-3.4	257.3	11.4	11.6	11.0	9.0 - 13.0
Total Private Markets		**634.5**	**-3.5**	**38.6**	**669.6**	**27.8**	**30.2**	**27.0**	**15.0 - 37.0**
Property	Various	149.0	-1.0	1.6	149.5	6.5	6.7	4.0	2.0 - 6.0
Private Equity	Various	202.1	1.3	10.2	213.6	8.9	9.6	8.0	6.0 - 10.0
Local / Impact	Various	78.4	-2.5	9.1	85.1	3.4	3.8	4.0	0.0 - 6.0
Infrastructure	Various	127.0	-1.5	14.1	139.6	5.6	6.3	8.0	6.0 - 10.0
Private Credit	Various	64.4	1.0	2.5	68.0	2.8	3.1	3.0	1.0 - 5.0
Timber/ Agriculture	Various	13.6	-0.7	1.0	13.9	0.6	0.6	--	--
Total CRMF		**465.4**	**--**	**-87.0**	**378.4**	**20.4**	**17.1**	**23.0**	**10.0 - 35.0**
Cash and Risk Management Framework (CRMF)	Insight	465.4	--	-87.0	378.4	20.4	17.1	23.0	10.0 - 35.0
Cash		**88.3**	**-2.7**	**0.0**	**85.6**	**3.9**	**3.9**	**0.0**	**0.0 - 5.0**
Cash		88.3	-2.7	0.0	85.6	3.9	3.9	0.0	0.0 - 5.0

Source: Investment Managers and Mercer.
Figures may not sum to total due to rounding.
Net cashflows exclude the reinvestment of income.
Hedged Funds (Legacy) valuation includes the Liongate portfolios.

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Manager Performance

	Investment Manager	2022 Q3 (%)	B'mark (%)	1 Yr (%)	B'mark (%)	3 Yrs (% p.a.)	B'mark (%p.a.)
Total		**-2.5**	-3.6	**-6.5**	-7.0	**4.1**	3.6
Total Equity		**0.0**	-0.6	**-8.6**	-6.9	**4.2**	6.0
WPP Global Opportunities	Russell	2.7	1.9	-1.5	-2.2	8.7	9.4
World ESG Equity	BlackRock	3.5	2.5	-2.8	-3.3	--	--
WPP Emerging Markets Equity	Russell	-3.5	-3.4	--	--	--	--
Total Credit		**-3.5**	1.4	**-15.8**	4.7	**-2.9**	3.4
WPP Multi-Asset Credit	Russell	-3.5	1.4	-15.8	4.7	--	--
Total Hedge Funds		**1.7**	1.3	**5.0**	4.2	**4.1**	4.0
Hedge Funds	Man	1.7	1.3	5.0	4.2	4.1	4.0
Total Tactical Allocation		**-1.3**	2.4	**5.8**	13.3	**7.2**	7.3
Best Ideas	Various	-1.3	2.4	5.8	13.4	6.7	6.8
Total Private Markets		**6.1**	0.8	**24.6**	7.1	**14.2**	5.8
Property	Various	1.1	-4.1	13.2	13.5	7.2	7.8
Private Equity	Various	5.1	1.6	23.9	5.7	18.7	5.5
Local / Impact	Various	11.6	1.6	38.0	5.7	--	--
Infrastructure	Various	11.2	1.6	32.2	5.7	12.1	5.5
Private Credit	Various	3.7	1.8	24.4	7.5	8.1	7.5
Timber/ Agriculture	Various	7.8	1.6	25.5	5.7	7.3	5.5
Total CRMF		**-18.7**	-18.7	**-37.4**	-37.4	**-5.5**	-5.5
Cash and Risk Management Framework (CRMF)	Insight	-18.7	-18.7	-37.4	-37.4	-5.5	-5.5

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Refinitiv.
For periods over one year the figures in the table above have been annualised.
Prior to 30 November 2020, performance for all portfolios and sub-totals/total was estimated based on MWRR approach.
Russell WPP Global Opportunities and Russell WPP Emerging Markets portfolios benchmark performance includes the outperformance target.
Total Hedge funds performance includes performance of the legacy Liongate portfolio.
Hedge funds, best ideas and private markets portfolios performance has been estimated by Mercer.

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Manager Ratings

	Investment Manager	12m Perf	3yr Perf
WPP Global Opportunities	Russell	🟢	🔴
World ESG Equity	BlackRock	🟢	--
WPP Emerging Markets Equity	Russell	--	--
WPP Multi-Asset Credit	Russell	🔴	--
Hedge Funds	Man	🟢	🟢
Best Ideas	Various	🔴	🔴
Property	Various	🔴	🔴
Private Equity	Various	🟢	🟢
Local / Impact	Various	🟢	--
Infrastructure	Various	🟢	🟢
Private Credit	Various	🟢	🟢
Timber/ Agriculture	Various	🟢	🟢
Cash and Risk Management Framework (CRMF)	Insight	⚫	⚫

		Active Funds , Target Specified	Active Funds , Target Not Specified	Passive Funds
🟢	Meets criteria	Target or above performance	Benchmark or above performance	Within tolerance range
🟡	Partially meets criteria	Benchmark or above performance, but below target	--	--
🔴	Does not meet criteria	Below benchmark performance	Below benchmark performance	Outside tolerance range
⚫	Not applicable	--	--	--

Appendix

4

Appendix A

Benchmarks

Name	Investment Manager	B'mark (%)	Performance Benchmark
Total		**100.0**	**-**
Total (ex-CRMF)		**77.0**	**-**
Total Equity		**20.0**	**Composite Weighted Index**
WPP Global Opportunities	Russell	5.0	MSCI AC World (NDR) Index +2.0% p.a.
World ESG Equity	BlackRock	5.0	MSCI World ESG Focus Low Carbon Screened Midday Index
WPP Emerging Markets Equity	Russell	10.0	MSCI Emerging Markets Index +1.5% p.a.
Total Credit		**12.0**	**SONIA +4.0% p.a.**
WPP Multi-Asset Credit	Russell	12.0	SONIA +4.0% p.a.
Total Hedge Funds		**7.0**	**SONIA +3.5% p.a.**
Hedge Funds	Man	7.0	SONIA +3.5% p.a.
Total Tactical Allocation		**11.0**	**UK Consumer Price Index +3.0% p.a.**
Best Ideas	Various	11.0	UK Consumer Price Index +3.0% p.a.
Total Private Markets		**27.0**	**Composite Weighted Index**
Property	Various	4.0	MSCI UK Monthly Property Index
Private Equity	Various	8.0	SONIA +5.0% p.a.
Local / Impact	Various	4.0	SONIA +5.0% p.a.
Infrastructure	Various	8.0	SONIA +5.0% p.a.
Private Credit	Various	3.0	Absolute Return +7.5% p.a.
Timber/ Agriculture	Various	--	SONIA +5.0% p.a.
Total CRMF		**23.0**	**Composite Liabilities & Synthetic Equity**
Cash and Risk Management Framework (CRMF)	Insight	23.0	Composite Liabilities & Synthetic Equity

Figures may not sum to total due to rounding.
Performance benchmark for WPP Global Opportunities and Russell WPP Emerging Markets portfolios include the outperformance target.
Private Credit benchmark was revised to Absolute Return 7.5% p.a. in Q4 2020 and for all preceding periods.
Cash & Risk Management Framework benchmark is assumed equal to fund performance for calculation purposes.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 23rd November 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. However it also includes the Fund's proposed response to Department of Levelling Up, Housing and Communities (DLUHC's) "Governance and reporting of climate change risks" consultation for approval.

The matters for noting include:

- Additional Voluntary Contributions Review (AVC) (1.03)
- Progress with the items on the Business Plan 2022/23
- Wales Pensions Partnership (WPP) voting and engagement
- Risk register - there have been a two changes to the risk register this quarter.
- 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.
2	That the Committee approve the "Governance and reporting of climate change risks" draft consultation response.

REPORT DETAILS

1.00	**INVESTMENT AND FUNDING RELATED MATTERS**
	Business Plan Update
1.01	Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2022/23. Key tasks are currently on target and key points to note are as follows: • F1 (Funding Strategy Statement Review and Triennial Actuarial Valuation) – the Actuarial Valuation process for 31st March 2022 is continuing. See agenda item 5. • F2 (Review of Investment Strategy) – This is ongoing, albeit it has been delayed slightly so due consideration can be taken of the current financial climate. Members attended a training session in October 2022. • F3 (Climate Change and TCFD) – Mercer continue to work in this area but due to other priorities this has been delayed. A training session for Members has been arranged for 1st February 2023. • F4 (UK Stewardship Code) – The draft submission was presented at the August 2022 Committee with final changes delegated to the Head of the Pension Fund. The final document was submitted to the Financial Reporting Council (FRC) on 31st October 2022. • F5 (LGPS Investment Related Developments) – This continues to be delayed in some areas as the consultation(s) that were due prior to the summer have not as yet been issued. The business plan was updated in August to extend this item into quarter four given the delay. In September 2022, the Department for Levelling Up, Housing and Communities (DLUHC) published the consultation for the Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks (see paragraph 1.02)
	Current Development and News *Consultation: Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks.*
1.02	On 1st September 2022 the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation on proposals to require Local Government Pension Scheme (LGPS) administering authorities (AAs) in England and Wales to assess, manage and report on climate change risks. The deadline for responses to the consultation is 24th November 2022. Consultation Link. The consultation is in line with recommendations made by the Task Force on Climate Related Financial Disclosure (TCFD). The proposed measures are intended to ensure that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by the administering authorities that locally manage the LGPS. Notably, this consultation has been launched on a stand-alone basis when for some period of time it had been stated that it would be contained in a wider consolidated consultation covering a range of areas, including TCFD. As has been previously discussed with Committee the Fund has

	always intended to respond to the consolidated consultation (and still intends to do so when launched). The proposals address four separate areas: governance, strategy, risk management, and metrics and targets. The draft response for the Fund is attached at Appendix 2 for Members' approval.
1.03	In summary the Fund is supportive of the proposals and a significant amount of the consultation focus surrounds climate change scenario analysis and metrics, for which the Fund has already undertaken modelling (and will be doing so again as part of the forthcoming investment strategy review). Our response provides an overview of how climate change is embedded into our governance policies and investment and funding strategies and also outline some areas where we believe challenges lie ahead, for administering authorities in particular. As further evidence of the Fund being committed to best practice in this vast area we intend to submit a TCFD report early in 2023, and this will adhere to the principles laid out in the consultation.
  1.04	*Additional Voluntary Contributions (AVC) Review* Under the LGPS Regulations, all Administering Authorities are required to provide members with access to an AVC provider, through which they can choose to save more for their retirement. By providing this, the Administering Authority has a fiduciary duty to ensure that the AVC arrangements it puts in place are in the best interests of its members (in terms of suitability of fund range, performance, governance and administration).
1.05	Historically, the vast majority of LGPS funds, including the Clwyd Pension Fund, used the Equitable Life Assurance Society (ELAS) to provide member's access to AVCs. After its well-publicised difficulties in the late 1990s and early 2000s, ELAS closed to new business and withdrew from the market. While the Fund appointed Prudential to provide access to AVCs after this point, many ELAS fund members remained with ELAS due to the type of funds they were invested in. In 2020, Equitable Life transitioned to Utmost. At that time the Fund contacted members who were due to have their ELAS AVC accounts transferred to Utmost and gave them the option to select alternative investments with Utmost, or to transfer these assets to the Fund's Prudential AVC scheme or to an alternative arrangement outside of the Fund. Some members selected alternative investments within Utmost.
1.06	The Administering Authority's fiduciary duties therefore continue for both the Prudential and Utmost, as our current and historic providers. In accordance with these requirements, the Fund performs regular AVC reviews in order to ensure that the AVC providers, their funds and their services remain appropriate and serve the best interests of the members. This report comments on the 2022 review. Currently, there are 603 Clwyd Pension Fund members with access to £6.3m of investments with Prudential and 49 members with access to £0.3m of investments with Utmost.

1.07	Appendix 3 sets out an update as provided by Mercer, and this includes an overview of the contract features, an update on performance of the funds and a view of the two providers. Both Prudential and Utmost have targeted net zero by 2050, with Prudential aiming for a 25% reduction in carbon emissions of all shareholder and policy assets by 2025 and Utmost committed to a 50% reduction by 2030. It also includes a case study that outlines the importance of regular AVC reviews as well as information on the slippage cost method used to calculate and assess transaction costs.
1.08	The type of AVC arrangements discussed in the review are: <u>Unit-linked funds</u> - Members purchase units in funds which invest according to their particular objective. - Returns to members are in the form of changes in the value of the unit price. - Members realise a profit or a loss from an investment when the units in the fund are sold. - For Clwyd Pension Fund, members are invested in 19 unit linked funds across Utmost and Prudential. <u>With profit funds</u> - Typically considered to be a fairly secure medium to long-term investment with reasonable potential performance from a pooled mix of assets including equities, property, bonds and cash. - The costs of running these are largely deducted from the fund and what is left over is available to be paid to the with profits investors as “bonuses”. - To avoid big changes in the size of bonuses each year, the insurer will smooth returns. - Guarantees can necessitate a more cautious underlying investment strategy, to maintain the insurer’s solvency. This can severely restrain future investment performance for other policyholders too. - Insurers can impose a Market Value Reduction (MVR) if disinvestment is other than (usually) the pre-selected retirement date or prior death and may be viewed by a member as a financial penalty on transfer. - Historically, payout examples were provided via insurers’ regulatory returns, but these ceased to be available in 2017 due to the Solvency II Directive.
1.09	Mercer have recommended that the Fund communicate with members to confirm their selected retirement ages are correct and remind them of the need to regularly review their AVC investments. The officers of the Fund will take forward these recommendations.
  1.10	*Wales Pension Partnership (WPP) Responsible Investing Update* The Fund’s key priorities with in its Responsible Investment (RI) policy included enhanced reporting on RI matters. Work is ongoing with WPP to produce a template for each of the Welsh Pension Fund Committees to receive information on voting, engagement and stock lending. Until the

	template is finalised, the Fund will provide publically available documentation.
1.11	<u>Voting and Engagement</u> As an asset owner, there are opportunities to engage with companies, and also vote at Annual General Meetings, with a view to helping improve company policies in relation to environmental, social and governance matters. As WPP own stocks on behalf of the Constituent Authorities (including Clwyd Pension Fund), they carry out voting and engagement on their behalf. WPP have appointed Robeco as the Voting and Engagement provider. The Deputy Head of the Clwyd Pension Fund, as part of the WPP RI Sub Group, has been working with Robeco to create suitable reports for Constituent Authorities showing the voting and engagement that has taken place. Appendices 4 to 6 of this update includes these reports but work is ongoing to further enhance them.
1.12	Appendix 4 highlights the engagement work that has been carried out on behalf of WPP from July to September 2022. This quarter provides information and case studies on the following areas of engagement: • Diversity and Inclusion & Natural Resource Management • Climate Transition of Financial Institutions • Responsible Executive Remuneration • Proxy Voting It is important to note that the lists of stocks in the engagement report are for the WPP as a whole and may or may not be in sub funds the Clwyd Pension Fund is invested in. This is one of the areas of enhancement that is ongoing. Appendices 5 and 6 provides summary details for the proxy voting reports for the Global Opportunities and Emerging Market Equity Funds in which the Fund is invested. The reports cover the number of meetings and votes cast for the period to September 2022 and some of the voting highlights.
1.13	<u>Securities Lending</u> Securities lending involves the owner of shares or bonds transferring them temporarily to a borrower. In return, the borrower transfers other shares, bonds or cash to the lender as collateral and pays a borrowing fee. Stock lending can, therefore, be used to incrementally increase fund returns for investors. WPP have appointed Northern Trust to lend securities, which are held within the WPP sub-funds, on their behalf. Quarterly Securities Lending reports are presented at each WPP Joint Governance Committee (JGC). The JGC due to take place in September 2022 was cancelled due to the death of the Queen. The next JGC will be on 5th December 2022. The total amount of WPP net revenue received for securities lending in the quarter to June 2022 was £358,547. The Clwyd Pension Fund is only

invested in 3 funds which generated the revenue as shown in the following table.

Sub Fund	WPP Net Revenue £	CPF Net Revenue £
Global Opportunities Equity (4%)	199,824	7,993
Emerging Markets Equity (47%)	14,095	6,625
Multi Asset Credit (34%)	20,266	6,890
Total	234,185	21,508

1.14 Roles and responsibilities

The role of monitoring the engagement, voting and stock lending carried out by Robeco and Northern Trust on behalf of WPP lies with the WPP Joint Governance Committee (JGC), rather than the Clwyd Pension Fund Committee. However WPP's role is to deliver the RI policies of all the Constituent Authorities.

1.15 *Transition of Assets*

During the quarter to September 2022 there were no transition of assets between mandates. However during October and November 2022 in light of the volatility in markets following the mini budget on 23rd September 2022, officers and the Fund consultant, Mercer held emergency discussions to agree a decision to transition some of the Fund assets. More detail around the decisions taken are reported in agenda items 6 and 7 of these papers but in summary the following transitions were effected:

Mandate	Redemption	Investment
BlackRock Passive ESG Equity	£125m	
Insight Cash & Risk Management Framework		£120m
Russell Emerging Market Equity	£90m	
Insight Cash & Risk Management Framework		£90m

The residual £5m from the transition was paid into the Fund bank account.

Following this transition and current valuations it is estimated the current asset allocations will be:

	Current %	Strategic %
Cash and Risk Management Framework	27	23
Global Equity	6	10
Emerging Market Equity	4	10
Multi Asset Credit	10	12
Hedge Funds	7	7
Tactical Portfolio	12	11
Private Markets	30	27
Cash	4	0

The current allocations are all within their conditional asset allocation range.

1.16	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the existing approved Investment Strategy, as well as reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 7. The Advisory Panel also receive verbal updates from key matters considered at the following Clwyd Pension Fund officer/adviser working groups: • Tactical Asset Allocation Group (TAAG) • Cash and Risk Management Group (CRMG) • Private Equity and Real Assets Group (PERAG) Any decisions arising from these meetings which have been agreed using delegated responsibilities are detailed in Appendix 7.
1.17	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 7 updates the Committee on the areas of delegation used since the last meeting. To summarise: • 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). • The following commitments to private market investments have been made in line with the Fund's Investment Strategy and recommendations from Mercer, the Fund Consultant; more details are provided in 1.19.

Asset Class	Fund	Commitment
Private Equity	Activate Capital II ECI 12	$13m (£11m) £20m

1.18	**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.
1.19	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. The Fund and Mercer continue to be busy considering new allocations for

	2022/23. A brief summary of the two private equity allocations recently agreed are shown below. Activate is a new manager but ECI is an existing manager that the Fund first invested with in Fund 6 in 1998. **Activate Capital II** A private equity manager raising $300m for its second fund. It will focus on venture capital and growth equity investments in companies that provide technology products, services and solutions that enable energy development, smart mobility and industrial digitisation. **ECI 12** A private equity manager raising £900m targeting control buy out investments in the UK mid-market. It will seek to invest in high growth, technology enabled businesses. The Clwyd Pension Fund has been an investor with ECI since 1998.

2.00	**RESOURCE IMPLICATIONS**
2.01	Due to three post vacancies in the Fund's Finance Team (out of a total of seven), a proportion of the work of the team has been outsourced to the Fund's consultants. This is a temporary measure until the posts are filled. It is hoped to start the recruitment for at least two of these posts (Principal Accountant and Governance & Administration Assistant) very soon as this was put on hold whilst the annual report and accounts was being prepared. It is critical these posts are filled in the near future due to the large proportion of vacancies in this team.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report, albeit consultation on updates to the Funding Strategy will be carried out during 2022/23.

4.00	**RISK MANAGEMENT**
4.01	Appendix 8 provides the dashboard and risk register highlighting the current risks relating to investments and funding matters.
4.02	There have been no additional risks added to the register since the last Committee but there are a number of changes to the current risks as well as underlying factors: • F4 Value of liabilities increasing due to market yields/inflation increasing out of line from actuarial assumptions - The likelihood for F4 has reduced by one from Significant to Low, as the level of interest rate hedging has increased and the projected forward inflation levels have reduced slightly. o There is a knock on effect to F2 which relates to the funding level reducing, increasing any deficit or reducing any surplus. Given the provisional valuation results are showing a much improved position and the change since the valuation date has not been significant this has also seen its likelihood reduce by one from Significant to Low.

	• There have also been some changes to the internal controls and actions to reflect updated information. In particular under F6 which covers Investment and/or funding objectives and/or strategies are no longer fit for purpose recognises that the performance of Link needs to be closely monitored via the Host Authority.

5.00	**APPENDICES**
5.01	Appendix 1 – 2022/23 Business plan Appendix 2 – Draft consultation response – Governance and reporting of climate change risks Appendix 3 – AVC Review Appendix 4 – WPP Engagement Report Q3 2022 Appendix 5 – WPP Global Opportunities Summary Voting Q3 2022 Appendix 6 – WPP Emerging Market Equity Summary Voting Q3 2022 Appendix 7 – Delegated Responsibilities Appendix 8 – Risk dashboard and register – Investments and Funding

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

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 Mercer, 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) **WPP – Wales Pensions Partnership** - The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. WPP has appointed an Operator to manage assets collectively for the eight Wales LGPS funds. A proportion of the Clwyd Pension Fund assets are invested via WPP. (i) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (j) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. (k) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (l) **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. (m) **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. (n) **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. (o) **Department for Levelling Up, Housing & Communities (DLUHC) –** supports communities across the UK to thrive, making them great places to live and work. (p) **Financial Reporting Council (FRC) –** an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Steward.

	A full glossary of Investments terms can be accessed via the following link. **https://www.schroders.com/en/uk/adviser/tools/glossary/**

Business Plan 2022/23 to 2024/25 – Q3 Update

Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2022/23 Period				Later Years	
		Q1	Q2	Q3	Q4	2023/ 24	2024/ 25
F1	Funding Strategy Statement Review and Triennial Actuarial Valuation	x	x	x	x		
F2	Review of Investment Strategy		x	x	x	x	
F3	Climate Change and TCFD		x	x		x	
F4	UK Stewardship Code	x	x	x			
F5	LGPS Investment Related Developments (later timescales unknown)		x	x	xM		
F6	Interim Funding Review						x

Funding and Investments (including accounting and audit) Task Descriptions

F1 – Funding Strategy Statement Review and Triennial Actuarial Valuation

What is it?

The formal triennial actuarial valuation of the Fund is due to be undertaken as at 31 March 2022. This considers the solvency position and other financial metrics and is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits including the impact of any shortfall or surplus. These aspects are driven by the contents of the separate Funding Strategy Statement, which is reviewed and consulted on as part of the process.

This is considered in conjunction with the employer risk management framework implemented by the Fund. Employers will be required to provide financial statements and evidence of affordability and security before contributions can be agreed. Consideration will also be given as to the sustainability of any contribution reductions. The exercise will include cash flow projections to input into the Cash and Risk Management policy framework.

Timescales and Stages

Effective date	31 March 2022
Demographic Analysis including covid-19 impact	2022/23 Q1
Update risk management and monitoring framework	2022/23 Q1 & Q2
Initial whole Fund results (expected)	2022/23 Q2
Integration with climate change considerations	2022/23 Q2
Individual Employer results including review of McCloud allowances (expected)	2022/23 Q2 & Q3
Funding Strategy Statement review and consultation with employers	2022/23 Q2 & Q3
Funding Strategy Statement approval	2022/23 Q4
Deadline for agreement of all contributions and sign-off valuation report	31 March 2023

Resource and Budget Implications

The exercise is led by the Deputy Head of Clwyd Pension Fund and will be performed by the Fund Actuary. It will involve considerable resource from the Administration and Finance teams over 2022/23. The Fund Actuary's costs in relation to this exercise are included in the 2022/23 budget.

F2 – Review of Investment Strategy

What is it?

This relates to the triennial review of the Investment Strategy having regard to the findings of the actuarial valuation and the review of the Funding Strategy.

The review will also have regard to DLUHC's recently published Levelling Up agenda and the requirement for LGPS Funds to draft a mandatory plan setting out an ambition as to how they will allocate at least 5% to "new" local investments (with local being defined as the UK). Note however that this is not a mandatory requirement in scale nor does it represent a ceiling. In addition, the review of investment strategy will incorporate strategic climate change scenario analysis modelling.

This is expected to take place concurrently with the review of the Funding Strategy Statement in 2022/23.

Timescales and Stages

Review of Investment Strategy	2022/23 Q2 & Q3
Approve Investment Strategy (with consultation if required)	2022/23 Q4
Implementation of any changes	2023/24

Resource and Budget Implications

The work will be led by Deputy Head of Clwyd Pension Fund, working with the Fund's Investment Consultant. The Investment Consultant's estimated costs in relation to this exercise are included in the 2022/23 budget.

F3 – Climate Change and TCFD

What is it?

The Task Force on Climate-Related Financial Disclosures (TCFD) have released climate-related financial disclosure recommendations to help organisations provide better information to support informed capital allocation. The Fund will look to report on a TCFD basis to ensure transparency of the work the Fund is undertaking with respect to climate change. This will include reporting on the various commitments the Fund has made relating to meeting its net zero target.

As noted in F5, DLUHC will be launching a wide-ranging consultation in the summer of 2022, and this will include how TCFD should be adopted within the LGPS. The Fund will have regard to this whilst carrying out the development of their reporting.

Design TCFD compliant reporting template	2022/23 Q2 to Q3
Review TCFD reporting template (if required) in line with LGPS requirement	2023/24

Resource and Budget Implications

This work will be led by the Deputy Head of Clwyd Pension Fund, supported by the Investment Consultant. Estimated costs for the development of the reporting are contained within the 2022/23 budget.

F4 – UK Stewardship Code

What is it?

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The UK Stewardship Code 2020 comprises a set of 12 'apply and explain' Principles for asset owners. As part of the Fund's desire to demonstrate its good governance and stewardship of its assets, the Fund will look to become a signatory to the Code by submitting its report by October 2022. The WPP have already submitted its application to become a signatory of the Stewardship Code, and the Fund will need to use this submission to inform their application.

Timescales and Stages

Develop Stewardship Code template	2022/23 Q1 to Q2
Stewardship Code submission (pre October 2022 deadline)	2022/23 Q3

Resource and Budget Implications

This work will be led by the Deputy Head of Clwyd Pension Fund, supported by the Investment Consultant. Estimated costs for the development of the submission are contained within the 2022/23 budget.

F5 – LGPS Investment Related Developments

What is it?

The Government (DLUHC) will continue to produce guidance for the LGPS community. It is expected that, in summer 2022, the Fund will be asked to consider a significant single consultation exercise. The Fund intends to respond to the consultation in respect of all areas covered.

Further detail will be provided in due course but it is anticipated that it will encompass the following areas:

- Levelling up – as described in section F2 (will eventually result in the publication of a mandatory plan by the Fund)
- TCFD – as described in section F3
- Asset Pooling Guidance - DLUHC undertook an informal consultation on new asset pooling guidance during early 2019. DLUHC has since confirmed its intention to carry out a formal consultation in due course (and it will now be contained within this wider consultation)
- Competition and Markets Authority Order 2019 – covering the requirement to set strategic objectives for investment consultants.

Timescales and Stages

Respond to consultation (in full)	2022/23 Q2 to Q3
Respond to changes in requirements	Unclear

Resource and Budget Implications

This work will be led by the Deputy Head of Clwyd Pension Fund, supported by the Investment Consultant. Estimated costs for the development of the reporting are contained within the 2022/23 budget albeit this may need revisited when the requirements are better understood.

Clwyd Pension Fund – Response to Consultation

LGPS (England & Wales) Governance & Reporting of Climate Change Risks

Introduction

The response to the questions in your consultation have been approved by the Clwyd Pension Fund (CPF) Committee on 23rd November 2023. The response aims to share the views and experience from the perspective of the CPF as we are fully aware of other responses that will consider the LGPS as a whole.

The Clwyd Pension Fund is a £2.5bn LGPS fund and is a partner fund in the Wales Pension Partnership pool. The CPF has always aimed to give both Risk Management & Responsible Investment high priority within our investment governance approach and we have just made our Stewardship Code 2020 submission to the FRC.

In recent years the CPF has given more focus on the integration of climate risk into investment decisions. After a number of training sessions and taking expert investment advice from our consultants, Mercer, CPF Committee have:

- developed beliefs
- included climate objectives into the CPF funding & investment objectives
- Set a net zero ambition for 2045 along with a credible transition plan underpinned by targets along the way.
- commissioned Mercer to provide a Climate Risk Report for 2021/22 and undertaken climate change scenario analysis, ahead of future requirements set out in this consultation.
- assisted Wales Pension Partnership in development of their climate risk policy.

As recognised in your consultation this is all very much work in progress and we will learn along the way and make appropriate investment decisions as more reliable data becomes available and as the investment landscape changes.

However we are already in a position where Mercer will consider how to implement our climate objectives as part of our investment strategy review currently underway. This is also integrated into the 2022 actuarial valuation, which will also consider climate risk from a liability perspective.

Overall the CPF is supportive of the approach in the consultation and we have taken input from Mercer, especially for Q3, Q5 & Q6. This is simply another investment and funding risk we need to manage, along with many others, within our existing governance and risk management structure and cannot be considered in isolation.

We hope our response is both informative and helpful.

Philip Latham

Head of Clwyd Pension Fund.

24th November 2023

Question 1: Do you agree with our proposed requirements in relation to governance?

Your proposals are:

We are not proposing to place any legal duties on individuals, whether officers or advisers, or on the pool. Our proposal is to place new duties on AAs to:

- *establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities*
- *establish and maintain processes by which they can, on an ongoing basis, satisfy themselves that those who undertake climate-related governance activities, advisors, and those who assist the AA (including officers and advisors) with respect to climate related governance are doing so effectively.*

W**e agree with the proposals and as a Fund believe we already have the governance arrangements in place to comply with the 'new duties' as illustrated below.**

The governance structure for the CPF is shown below for illustration and ensures that the CPF Committee receives expert investment and funding advice, currently from Mercer, who have experts in managing climate risk for pension funds. Our investment objectives, including climate related objectives, form part of the CMA assessment with Mercer.

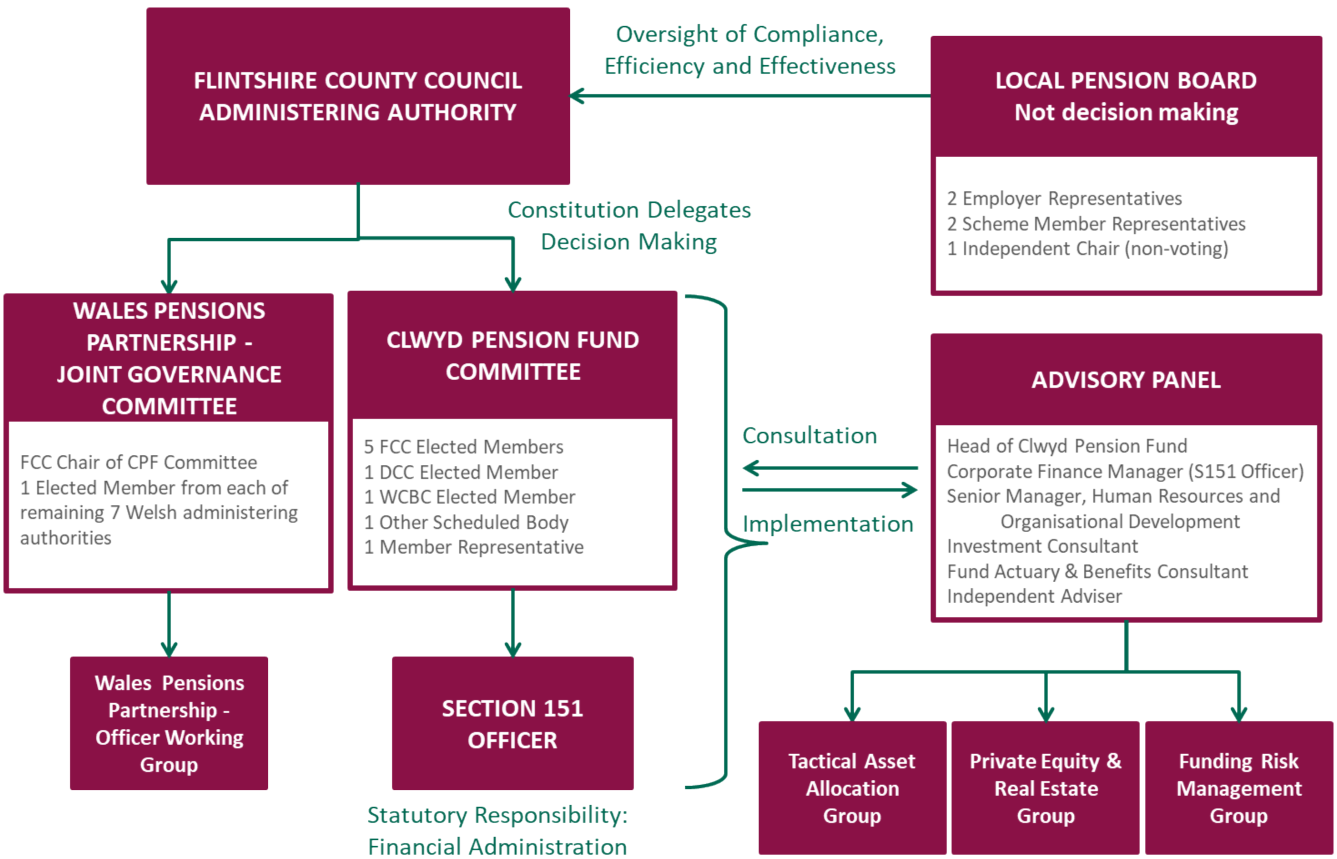
The structure also enables input from the Board in their statutory governance advisory role which is also relevant here. This governance structure manages all pension fund risks of which climate risk is one of many. We will comment on the role of the pool later.

The CPF Governance and Compliance Statement includes the following objectives that are applied to the management of climate risk as to all other risks.

In relation to the governance of the Fund we will aim to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk

- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
- Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.



Question 2: Do you agree with our proposed requirements in relation to strategy?

Your proposal is to place new duties on AAs to:

- *identify, on an ongoing basis, climate-related risks and opportunities that will impact the investment and funding strategy of the AA, over the short, medium and long term.*
- *assess, on an ongoing basis, the impact of the identified risks and opportunities on the AA's investment and funding strategy.*

Although we do not disagree with the proposal, given this relates to strategy the approach taken by CPF was first to determine and document clear investment objectives relating to sustainability, including Climate Risk which can be measured using your proposals.

For illustration relevant extracts from our Investment Strategy Statement dated February 2022 are shown below.

1. <u>Funding & investment Objectives</u>

The specific objectives relating to the funding and investment management of the Fund are summarised below with those of particular relevance to this consultation **in bold**.

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination
- **Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability**
- **Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045**
- **Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these**

- **Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.**

The key actions and areas of focus that have been identified to achieve these objectives are included in the Fund's business plan, to align with the key aims and objectives of this strategy.

2. Responsible Investment Principles

- The Fund's fiduciary duty is to act in the best interests of its members and employers. The Fund recognises that ESG issues create risk and opportunity to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore, that these factors should be taken into account in its Funding and Investment Strategies and throughout the decision making process
- The Fund is a long-term investor, with pension promises for many years, and because of this, it seeks to deliver long-term sustainable returns
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment
- The Fund recognises that transparency and accountability are important aspects of being a Responsible Investor and will demonstrate this by publishing its RI policy and activity for the Fund
- The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage corporate responsibility
- The Fund recognises the significant financial risk of not being a Responsible Investor and it seeks to ensure that this risk is mitigated through its Investment Policy and implementation
- The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and it will make selective investments to support this aim

3. Climate Change Beliefs

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the Fund's investment portfolio
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy
- As well as creating risk, climate change also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

You propose to place a new duty on AAs to:

assess their assets, liabilities, investment strategy and funding strategy against climate risks and opportunities in at least two climate scenarios. This assessment must include at least one scenario based on a global temperature rise of 2°C or lower on pre-industrial levels. This assessment must occur at least once every valuation cycle. In interim years, AAs must consider whether any changes in the fund have been substantial enough to require scenario analysis to be repeated.

We agree with your suggested requirements, however, although we usually welcome local discretion, in this case on balance we would prefer consistency across the LGPS on the other scenario or scenarios used. Mercer have shared the following:

"We are supportive of mandating consideration of a 2°C or lower scenario. Whilst we believe that being overly prescriptive would have a number of drawbacks, not least because there are any number of plausible future scenarios, we would be in favour of providing guidance regarding the choice of second scenario. At Mercer, we use three scenarios; a rapid transition resulting in a 1.5°C outcome; an orderly transition resulting in a below 2°C outcome and a failed transition leading to a 4°C outcome. We find this range of scenarios helps investors explore the implications of a low carbon transition and climate-related physical risks.

We believe the interpretation of the asset class impacts under each climate-related scenario should not be prescribed. It is important to have the diversity of views across the industry as well as the tools that are used to carry out the modelling in order to avoid *the susceptibility to model risk and reliance on a few, ultimately deterministic, economic pathways."*

In the case of the Clwyd fund, we have undertaken strategic climate change scenario analysis detailing results that are consistent with a range of scenarios, including a scenario covering 2ºC or lower outcome. The Fund is committed to taking further investment strategy decisions that will enable commitments that have been made to date to be implemented (see response to question 6 of the consultation for a list of these commitments).The table below details the Fund's current investment strategy – the Fund continues to work with its advisers to understand developments within the applicable asset classes and how industry standards and metrics in regards to climate scenario analysis can be incorporated going forwards, particularly for private markets and real assets strategies.

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
Private Markets***	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
Total	**100.0%**

Source: Clwyd Investment Strategy Statement, February 2022. See document for explanatory notes. https://mss.clwydpensionfund.org.uk/documents/Investment%20Strategy%20Statement.pdf

Question 4: Do you agree with our proposed requirements in relation to risk management?

Your proposed requirements are for AAs to:

- *Establish and maintain processes for the purpose of enabling them to identify and assess climate-related risks.*
- *Establish and maintain processes for the purpose of enabling them to effectively manage climate-related risks.*
- *Ensure, on an ongoing basis, climate-related risk management processes are integrated into their overall risk management.*

You also state in para 58 *AAs will already have risk management processes in place to manage investment risks. We therefore propose to require AAs to integrate these climate-related processes in their existing risk management processes. AAs may also wish to identify, assess and take action on climate-related opportunities, and integrate the consideration of these opportunities in their risk management. We propose to provide statutory guidance to assist AAs.*

We agree with the proposed requirements and this process is already in place through the CPF Risk Management Policy and we have for many years successfully made climate related investments.

Question 5: Do you agree with our proposed requirements in relation to metrics?

You propose to require AAs to calculate and report the following metrics:

- *Metric 1 (absolute emissions metric) - Total Carbon Emissions, which includes the Scope 1, 2 and 3 emissions reported separately, as well as the sum of the three.*
- *Metric 2 (emissions intensity metric) - Carbon Footprint. This is Carbon Emissions divided by the total assets of the fund to which the data relates. It should be calculated separately for Scope 1, Scope 2 and Scope 3 emissions.*
- *Metric 3 (data quality metric) – the percentage of assets for which Scope 1, 2 and 3 emissions are verified, reported, estimated or unavailable, in line with the GHG Protocol.*
- *Metric 4 (Paris Alignment Metric) – the percentage of the fund's assets for which a public Paris aligned commitment has been made, i.e. net zero by 2050.*

You also propose to recommend in statutory guidance that AAs consider whether they wish to calculate any other climate related metrics recommended by the TCFD in order to inform assessment of climate risks.

We have discussed the proposed requirements with our adviser, Mercer, who have shared the following:

“There is merit in calculating and reporting a range of metrics covering emissions/non-emissions alongside point-in-time/forward-looking appraisals. However, Mercer have noted the following points regarding the proposals:

Total Fund versus mandate level reporting

We understand the desire for whole of fund level reporting as it will facilitate comparisons between funds and seek to give an overall view of the asset position. However, the assumptions required to generate Total Fund level emissions metrics, including how to account for assets with no data, will make comparison across funds highly challenging and even misleading. One alternative would be for Funds to report on their aggregate listed equity and corporate bond holding metrics.

Scope 1, Scope 2 and Scope 3 emissions

We note the intention to report metrics across all three scopes. We anticipate significant gaps in relation to scope 3 data, which has implications for how useful this data will be when making investment decisions. We are also aware of situations where scope 3 data has been materially revised. Therefore, whilst we agree with the proposal to collate this data, we recommend that statutory guidance highlights the limitations associated with relying upon this data when making investment decisions. As a counterbalance, we also recommend the guidance cautions against making investment decisions based solely on scope 1 and 2 data, given they are a very narrow definition of a company’s carbon footprint. We also note that there is no expectation that climate related targets based on emissions have to include scope 3 emissions, which we are comfortable with at this point in time.

While we support reporting separately on scope 3 data we believe administering authorities should be able to report scopes 1 + 2 together in line with how many investors think about their emissions today.

Emissions Intensity metric: Carbon footprint

We support the use of Carbon Footprint or Weighted Average Carbon Intensity (WACI) as metrics under the Emissions Intensity category, rather than prioritising solely Carbon Footprint. We believe that both metrics provide useful information for investors. Furthermore, in our experience, WACI is more readily available, particularly in fixed income, than Carbon Footprint due to current limitations on the availability of Enterprise Value (including cash), which is required to calculate the Carbon Footprint but not WACI. We have also found that, on balance, fixed income managers are more familiar reporting and setting targets against WACI. We would, therefore, suggest that administering authorities have the option of selecting either of these intensity metrics. If there is a strong desire for consistency in metric reporting across administering authorities, to be able to aggregate data, we would suggest reporting on both metrics, noting that they provide a different lens by looking at intensity by revenues (WACI) and by financed emissions (Carbon Footprint).

Data quality and the data quality metric

We also note the requirement to report data quality, alongside the intention for the LGPS to use its scale and market power to drive improvements in the quality of emissions data, which will be a critical factor in raising the quality of climate risk management. We agree this rationale in the short to medium term, but suggest that inclusion of this metric as a required metric be kept under be review as we are already seeing high reported data quality metrics across listed portfolios, reducing the decision usefulness of this metric in certain situations.

Paris Alignment metric

We also note the position that the Binary Target Measure is considered the most appropriate for the LGPS at this point in time. We agree that all Paris Alignment Metrics have their strengths and weaknesses. With regards to Binary target measurements, there is a danger of corporate greenwash, as the metric as stated will not capture the credibility of the various transition targets. We recommend, therefore, requiring that any net zero/Paris alignment transition plans be verified by a 3rd party e.g. the Science Based Target Initiative (SBTi). This will encourage companies to get their targets verified."

Question 6: Do you agree with our proposed requirements in relation to targets?

Your proposed requirements for AAs are:

- *AAs must set a target for their fund in relation to one of the metrics which they have selected. The target may be in relation to one of the mandatory metrics (absolute emissions, emissions intensity, data quality or Paris alignment), or any other climate-related metric endorsed by the TCFD which the AA chooses.*
- *AAs must annually measure, as far as they are able, the performance of their fund against the target they have set and taking into account that performance, determine whether the target should be retained or replaced.*

There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding.

We agree with the proposal in relation to targets. The CPF has already set a number of targets, priorities and commitments relating to climate risk within its Investment Strategy Statement which are extracted below for your information.

Net-Zero commitment

As part of its commitment to RI the Fund has undertaken to evaluate and manage the carbon exposure of its investments to assist in ensuring an effective transition to a low-carbon economy. As part of this work, on 10 November 2021 the Clwyd Pension Fund Committee approved a strategy to achieve net-zero carbon emissions from its investment portfolio. This included carbon emissions analysis of the listed equity portfolio to provide a baseline for the Fund. Specifically, the Committee agreed an ambitious target for the investments in the Clwyd Pension Fund, as a whole, to have net zero carbon emissions by 2045, with an interim target of carbon reduction of 50% by 2030 (relative to 31 March 2021levels). Underlying this headline commitment, the Fund also has a number of other key targets as outlined below:

a) for the Fund as a whole:

- to have at least 30% of the Fund's assets allocated to sustainable investments by 2030
- to expand the measurement of the carbon emissions of the Fund's investments to include all assets by the end of 2023

b) within the Listed Equity portfolio:

- to achieve a reduction in carbon emissions of 36% by 2025 and 68% by 2030 (relative to 31 March 2021levels)
- to target at least 30% of the Listed Equity portfolio to be invested in sustainable assets by 2030 (relative to 31 March 2021 levels)
- to reduce fossil fuel exposure relating to oil and gas by 70% by 2025 and 90% by 2030 (relative to 31 March 2021 levels)
- to reduce fossil fuel exposure relating to coal by 90% by 2025 and 95% by 2030 (relative to 31 March 2021 levels)
- to engage with the biggest polluters within the Fund's Listed Equity portfolio as part of an overarching stewardship and engagement strategy, to achieve:
    - by 2025, at least 70% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective
    - by 2030, at least 90% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective

The Fund will monitor and report against these targets at least annually, and may review and revise them as appropriate, particularly to ensure that targets and ambitions are in line with national and international developments and initiatives.

<u>Strategic RI Priorities</u>

The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to concentrate on everything together. Therefore, to enable the approach to be focused, the Fund considered its strategic priorities for 2020 to 2023, which will support the overall aim of being a Responsible Investor.

These priorities were set in 2020 and work is ongoing to deliver against each of them, and the Clwyd Pension Fund Committee receives regular updates on progress. These strategic priorities will be reviewed annually, and may be added to, but to maintain the desired focus the following have been identified from an RI perspective:

Evaluate and manage carbon exposure

- The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio
- Once this initial assessment has been made the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the following five years

Identify sustainable investments opportunities

- The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The 2019 Investment Strategy Review has further supported this with the creation of a separately identified Local/Impact portfolio. This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the United Nations Sustainable Development Goals. Additional opportunities will be added with a view to achieving the target weight in three years (i.e. by 2023)

Improve public disclosure and reporting

- The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis

Active Engagement on ESG risks

- As a member of the LAPFF, the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments, this engagement will be supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement

FRC Stewardship Code

- The Fund was previously confirmed as a Tier One signatory to the 2012 Stewardship Code in March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and recently made a submission to the FRC with the intention of becoming a signatory

Actuarial Valuation and review of Investment Strategy

The assessment of the impact of climate change on the Fund's investment strategy will underpin the actuarial valuation and investment strategy review processes, both of which will be carried out during 2022/23. Addressing climate change related risks will be a key factor in each.

Commitment

The Fund has always sought to act with conscience and financial materiality when it comes to its investments and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice, and the Fund is committed to ensuring its approach remains relevant and appropriate. The Fund' RI Policy will be formally reviewed at least every three years as part of any strategic review of the Fund's asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise

In relation to the statement at the end of this section of the consultation - *"There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding."*- we believe that this is an extremely important point, particularly given many administering authorities are put under pressure to set targets or divest by organisations, including participating employers, who may have different targets or climate objectives. In some cases this can result in a conflict of interests for members of pension committees and administering authority officers such as section 151 officers. We would welcome this statement being included within the statutory guidance with a reference to the fiduciary responsibility to scheme members (and employers) which exists for the LGPS.

Question 7: Do you agree with our approach to reporting?

There are a number of proposals made in the consultation which we have commented on in turn and made some **alternative suggestions relating to the template you mention in the consultation document.**

121. *We propose that each AA publishes a Climate Risk Report every year, at the same time as the AA's annual report is published – i.e. 1 December for the reporting year which ended the previous 31 March. Once published, the Climate Risk Report must be easily and freely accessible online and members must be informed of where to find it. In addition, links to each AA's Climate Risk Report will be included in the Scheme Climate Report and may be shown on the Scheme Advisory Board's (SAB) website. The Climate Risk Report may be a constituent part of the AA's Annual Report, or a standalone report.*

Agreed.

122. This means that the first report for the year 2023/24 must be available by 1 December 2024.

Agreed. However given the CPF would have already completed scenario analysis voluntarily ahead of this we ask that this is not required to be repeated as of the date of the first 'formal' report, given the costs involved.

123. *The Climate Risk Report should be accessible to two distinct types of user: specialist and non-specialist. The Climate Risk Report will contain detailed and useful data, and we hope that the metrics, targets and scenario analysis in particular will be important resources for specialist audiences. This role of the Climate Risk Report may require it to be technical in content, and dense with information.*

124. In addition, various non-specialist stakeholders including scheme members, members of the public and other parties will also need to be considered. The Climate Risk Report should include enough information to be understood by the lay reader.

125. The AA will have to decide on how best to approach these dual requirements. One approach is to split the Climate Risk Report into two sections: a body and a short executive summary. The executive summary would be written to explain the AA's approach and high-level findings to the lay reader. This allows the body of the Climate Risk Report to be technical as is useful to specialist audiences. We regard this as a very effective way to address this balance, although other approaches would also be valid.

126. We would like to stress that the narrative provided in the Climate Risk Report will be as valuable as the data for most audiences. Metrics by themselves are difficult to interpret for the lay reader.

We would like to suggest an alternative method of reporting to tackle some of the issues raised in the consultation and ease the local administration burden. The requirement should be for an **AA to provide a Climate Risk report for the Responsible Authority**. This would be in an online template format with the link being publicly available. This would include details required in 130. A link to this Climate Risk Report for DLUHC must be included in the Fund's AA Annual report along with a lay person narrative. External auditors are already required to audit the Annual report to ensure consistency of content so this provides added scrutiny on the 'lay' person message given to members.

As an aside the Annual Report & Accounts is now becoming very cumbersome and time consuming to complete. A publicly available reporting template (in English & Welsh) approach to the Responsible Authority would have many advantages and leave the AA to provide a shorter more reader friendly document for members and other stakeholders. The link to the completed DLUHC template would have to be included in the Annual Report for members and other stakeholders.

This is like the approach of the tPR to their annual return.

127. *For example, differences in an AA's investment allocation, such as its strategic allocations between the main asset types will affect its carbon emissions. Moreover, a high carbon exposure or poor alignment with the Paris climate goals may be managed by effective stewardship and engagement from the AA. AAs should ensure that messages such as these are presented in a way to help the lay reader interpret the report and understand the fund's strategy towards managing the risks from climate change.*

Your example does lead a preference for the Climate Risk Report to be part of the Annual Report otherwise it will be meaningless in isolation without repeating the fund's investment activity during the year. This will be particularly important if a fund's change to strategic or tactical allocation to manage more immediate significant financial risks increases carbon exposure.

128. *It is important that the report must be easily accessible to scheme members, on the AA's website and via an internet search. We propose that AAs must at least inform members of the Climate Risk Report and how to find it when they issue their annual benefit statements. This does not necessarily mean including wording in the annual benefit statement itself.*

The CPF is required to have a Communication Strategy along with all AAs. However how this is done is determined by the AA and there is no reason for any exception to be made for a Climate Risk Report. At CPF the existence of the Climate risk report will be assessable on our web-site (in English and Welsh) and communicated to members in the same way as other matters, which may or may not be at the same time as Annual Benefit Statements. For example, pensioner members are also interested in this who do not receive an Annual Benefit Statement.

129. *Climate Risk Reports should be produced in line with the Local government transparency code 2015.*

This Code is for England only and does not apply to Wales.

130. We propose that the Climate Risk Report must include the following information:

Area	Disclosure Requirement
Governance	Describe the AA's oversight of climate-related risks and opportunities Describe the role of any person other than the scheme manager who undertakes relevant governance activities and the process by which the committee satisfy themselves that this is being done Describe the role of any person who (other than a legal advisor) advises the scheme manager on relevant governance activities and the process by which the committee satisfies itself that adequate steps are being taken

Strategy	Describe the climate-related risks and opportunities which the scheme manager has identified Describe the scheme manager's definition of short term, medium term and long term
Scenario Analysis	Describe the most recent scenarios the scheme manager has analysed Describe the impact of the climate-related risks and opportunities on the AA's investment and funding strategies Describe the potential impacts on the AA's assets and liabilities which the AA has identified in the most recent scenarios and the reason for any data which is missing from the analysis Describe the resilience of the AA's investment and funding strategies in the most recent scenarios the AAs have analysed
Risk Management	Describe the processes which the AA has established for identifying and assessing climate-related risks to their fund Describe the processes which the AA has established for managing climate-related risks to the AA Describe how these processes are integrated into the AA's overall risk management
Metrics	Report the metrics which the AA has calculated (or an explanation as to why these were not possible to calculate)
Targets	Report the target which the AAs have set and the performance of the AA against that target.

We agree with the content of the report.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

Your proposals are:

In addition to the Climate Risk Reports published by each AA, we are proposing an annual Scheme Climate Risk Report to provide an overview of the LGPS and climate risks, produced by the Scheme Advisory Board (SAB). Such an overview would be useful for scheme members and other stakeholders. It would also enable the LGPS to demonstrate progress and impact, and showcase good practice.

We therefore propose as a minimum that the Scheme Climate Risk Report would include links to each AA's Climate Risk Report and the four aggregated metrics for the whole LGPS.

In relation to metrics, we propose that Total Carbon Emissions and Carbon Footprint should be calculated and reported at an aggregate level. This would involve a simple sum of Total Carbon Emissions for Aggregate Total Carbon Emissions. In order to calculate Aggregate Carbon Footprint, this would be calculated as Aggregate Total Carbon Emissions divided by the overall size of the LGPS investment portfolio for which total emissions are at least estimated. This would be done separately for Scope 1, Scope 2 and Scope 3 emissions.

When reporting the data quality metric, each AA must report the proportion of its assets for which overall emissions data is: Verified, Reported, Estimated or Unavailable. One reason that we have proposed this metric is that it can be aggregated across AAs. As risk management is a key objective of TCFD reporting, we believe that visibility of data quality, which is essential to the understanding of risk, will be a useful way to measure progress. Therefore, we propose to show overall data quality in the Scheme Climate Report, whereby the LGPS's entire assets will be divided into verified, reported, estimated and unknown.

We propose that the SAB reports on an aggregate Paris Alignment Metric based on AA level reports. This would show the proportion of the value of the whole LGPS's assets for which there is a net zero commitment in line with the Paris goals.

In the above paragraphs we have outlined our minimum proposals for the Scheme Climate Risk Report. In addition, we are inviting views about whether emissions, data quality and Paris-alignment metrics for each AA should be shown in the Scheme Climate Risk Report.

Emissions and data quality metrics will already be available in the Climate Risk Reports published by each AA and it will be possible to make comparisons between AAs. AAs may be concerned about being compared unfairly, and may fear that this may lead to pressure to reduce emissions through divestment. There is no expectation from Government that AAs should reduce emissions via divestment.

We recognise that transparency is an important feature of the LGPS's approach to managing climate risks. It is important for all those to whom the Scheme is accountable have easy access to climate-related information.

We do not propose to include any aggregate data on the scenario analysis requirement. This is because scenario analysis may be very difficult to aggregate in a meaningful way.

We will leave the SAB to comment on this question, noting that the standard template being produced to support consistency should be carried out in consultation with administering authorities so that is 'practitioner-friendly'.

Our only suggestion is to assist in making the data more understandable and to put into context for the lay person the total carbon metric at scheme level could be compared or equated with something -e.g. emissions of X average households, X cars etc. Otherwise a standalone carbon emissions number is meaningless.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

The CPF will work with the Wales Pension Partnership to determine whether there are any advantages of joint working. At the moment the CPF only has circa 30% assets pooled, so less of a factor for us currently but this will change over time. We would advise that funds with their pools are left to determine the most efficient method of how this is done for both pooled and non-pooled assets without further guidance forcing a particular outcome.

It will be important for the pools to ensure they have appropriate resource and expertise to carry out this reporting, and we would suggest this is included in the statutory or operational guidance.

Question 10: Do you agree with our proposed approach to guidance?

DLUHC intends to provide high level statutory guidance to accompany changes to regulations. This will include guidance relating to the governance activities required of AAs and the Climate Risk Report. We have also asked the SAB to produce more detailed operational guidance.

The SAB will also be asked to produce a standard template which AAs will be required to follow in producing their Climate Risk Report. This will help AAs to comply with the requirements, and help to ensure that the Scheme Climate Risk Report is as comprehensive and consistent as possible.

We agree to the approach to guidance as long as governance and communication activities are consistent with those elsewhere in LGPS Regulations and Guidance required for other activities. There is no justification for management of climate risk to be a special case or exception and considered in isolation.

With reference to our response to Q7 we are **very supportive of the template approach**.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

It is important that individuals making decisions in response to climate-risk management processes have the adequate skills and information to make choices. While we will not be imposing any legal requirement on an individual's knowledge and skills, we wish to promote best practice in our approach. It is important to note that scheme managers are not expected to be technical experts in climate science or climate finance. However, a base knowledge regarding climate risks will be necessary in order to, for example, interpret the results of scenario analysis.

Agreed. The CPF also has a Knowledge & Skills policy for Committee, Board and Senior Officers to meet the requirements of CIPFA, tPR and MIFID II. Climate risk has been the subject of several induction, briefing and training sessions.

Although we note no legal requirement we would encourage more compulsory online LGPS accredited training arranged nationally to ease the burden and cost of training locally especially given the turnover of Committee members at each local election. Climate risk would then form part of that training.

Firstly, we propose to require that AAs must take proper advice regarding assessing and managing climate risks. This should help the scheme manager, who may not be a technical expert to take proper account of climate risks in setting their investment strategy and asset allocation.

AAs will need to satisfy themselves that the advice is high quality and provided by appropriately qualified people. We welcome views as to how this may be practically ensured. We welcome responses on whether and how pools could jointly procure expert advice for their partner funds.

We agree with the proposed approach and as explained earlier ensure CPF take proper expert advice on all investment matters including climate risk and is part of our CMA assessment with Mercer.

The requirement to take 'proper advice' on investment matters is already in LGPS Regulation. If this could be open to other interpretation than expert/regulated investment advice then this wording should be reviewed. Management of climate risk is integrated into other investment decisions so there should be no reason for a separate requirement being necessary.

The Wales Pension Partnership already jointly procures expert investment advice through the Host Authority, Carmarthenshire County Council. Hymans Robertson already provide some climate data on WPP sub funds.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

None specifically although we do ask when considering guidance that you consider reference to the recommendations for pension funds from the Local Authority Pension Fund APPG Just Transition report. – Ensuring Responsible Investment for a Just Transition to Net Zero.

Mercer

welcome to brighter

AVC Monitoring Report

Clwyd Pension Fund

November 2022

Hannah Long, Sandy Dickson

A business of Marsh McLennan

Contents

Mercer

Overview of AVCs

1

Overview – Provider Data

	Clwyd Pension Fund (The "Fund")				
AVC Provider	**Member numbers***	**Asset Value**	**Fund range**	**Unit-linked / With profits**	**Guarantees applying**
Utmost	49	£296,657	21[2]	Unit-linked	No guarantees applied
Prudential**	603	£6,329,825[1]	15[3]	Unit-linked / With-profits	With profits guaranteed bonuses depending on date purchased
Overall Total	**652**	**£6,626,482**	**36**		

Source: Providers.

Utmost values as at August 2022.
Prudential values as at July 2022.

*There are members invested in more than one fund.

**Contributions are still being paid by Prudential policyholders.

1) The asset value includes Terminal Bonus (c. £849,380) applied for the With Profit funds. This bonus, which is only applied at the time benefits become payable, is not guaranteed. The asset value also includes any Market Value Reduction.

2) Members are only invested in 5 Unit-Linked funds.

3) Members are only invested in 14 Unit-Linked funds and in the With Profits Accumulation Fund.

There were 16,996 active members and 17,361 deferred members in the Fund at 31 March 2022

Overview of Contract Features

	Product Features			
AVC Provider	**Lifestyle**	**Online access**	**Partial transfer options**	**Base contract charge**
Utmost	Yes	No	Yes	n/a
Prudential	Yes	Yes	Yes	n/a

Source: Providers.

- 148 members at Prudential are invested in lifestyle strategies – 91 targeting cash and 57 targeting other options at retirement.

AVCs at Retirement

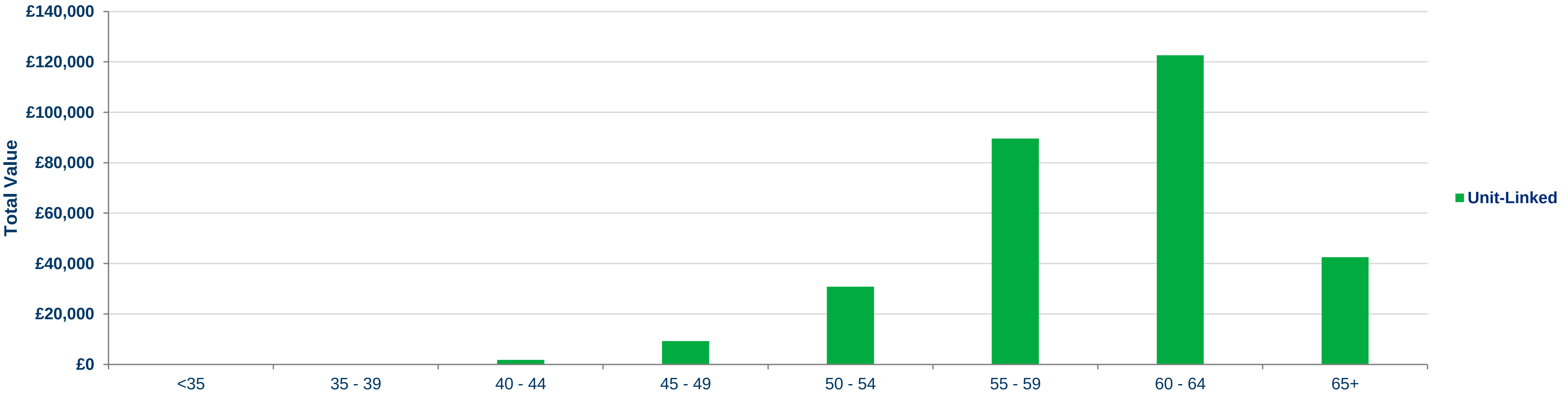
- Members can take their AVCs as 100% tax free cash.
- Additionally, members can also choose to buy an annuity in the open market should they wish. Most, however, will either use as cash or re-invest back into the main fund for a fixed pension.

Member demographics

2

Appendix: Total Assets – Utmost

Member Demographics



	<35	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	60 - 64	65+
Number of Members	-	-	2	2	11	18	10	6

Values as at August 2022.

The Plan has 1 policy in place with Utmost: E0095 with 49 policyholders. As at August 2022, there are 8 members who are invested in more than one fund.

Appendix: Total Assets – Prudential

Member Demographics

Prudential

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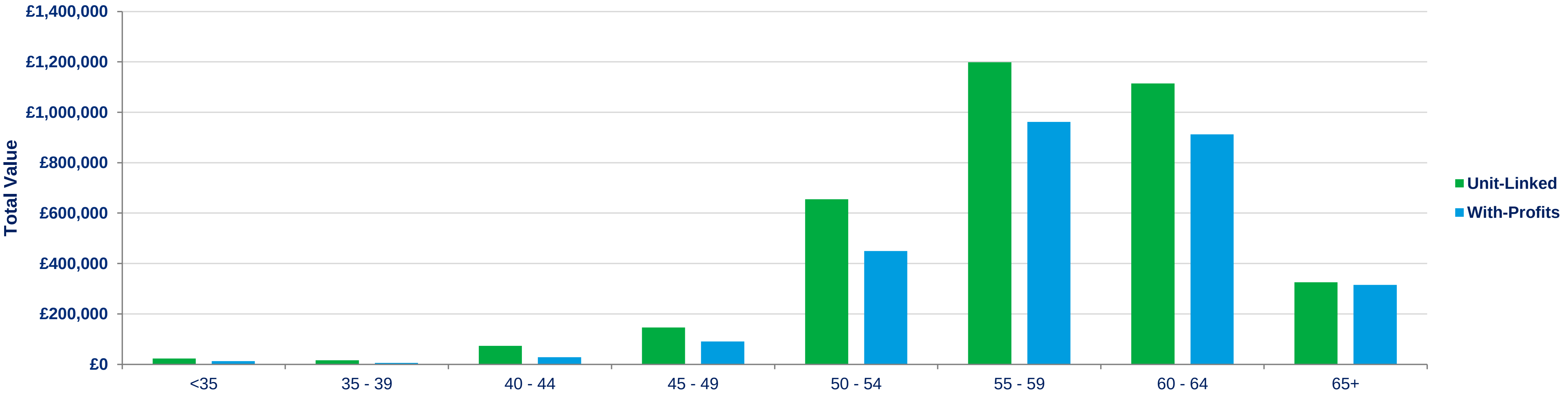

Number of Members	17	10	11	4	23	15	40	28	80	55	92	94	90	59	21	24

Values as at July 2022.
Prudential with profit values inclusive of terminal bonus.

The Fund has 1 policy in place with Prudential: L013 with 603 policyholders. As at July 2022, there are 336 members invested in more than one fund and 60 members holding both Unit-Linked and With-Profits funds.

Comment on the AVC Providers

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Utmost Life and Pensions (ULP)

As at April 2022	Home (utmost.co.uk)
Ownership and background	ULP was established in 2017 by Utmost UK Group Holdings Ltd as a newly authorised UK life company 'run off' specialist – expected to be the operational base for further acquisitions of traditional books of life business. The first of these transactions was announced in June 2018 with the agreement with Equitable Life to transfer all of Equitable's business to ULP – which completed on 1 January 2020 and significantly increased ULP's assets under management.
Management of Funds	JP Morgan Asset Management is Utmost's investment partner, responsible for the design and management of the unit linked fund range.
Current issues/recent developments	Response times to requests for information can be lengthy. In common with most of their peers updates in respect of developments in respect of the fund range are intermittent.
Sustainability	Statement from their website: "The Utmost Group is an asset owner of £64bn of assets under administration, and our approach to managing investments can have a positive impact on the environment. The Group takes a pro-active approach to sustainable investing and is embedding a responsible investment approach throughout our portfolio. We are introducing a target to maintain a minimum average ESG score across our shareholder asset portfolio and are working to provide additional sustainable investment options to our customers."

Prudential

As at April 2022	Prudential With-Profits Fund | Investment Guide
Ownership and background	Prudential is the Life & Pensions provider within the M&G Group. With profits funds are offered alongside a range of mutual funds and bespoke segregated and pooled mandates.
With Profits Fund	Prudential Assurance Company Ltd With-Profits Sub-Fund is open an is the largest with profits fund in the UK. The Scottish Amicable Insurance Fund is now closed.
Management of With Profits fund	The Prudential Portfolio Management Group, part of the M&G Treasury and Investment Office, is responsible for the strategic and asset management of the with profits funds. Assets are managed by a range of external managers together with M&G Investment Managers. Governance oversight is provided by the With Profits Committee. The Committee is appointed by the Prudential Assurance Company Board and will have at least three members, all independent and external to PAC.
Current issues/recent developments	**Service Levels**. The vast majority of business is now being completed within acceptable SLA levels (on an end-to-end basis). Prudential acknowledge that the tail includes both complex and more basic requests. Call waiting times have been steadily improving since November 2021, after a period of significant issues over the summer months. Local Government clients continue to face significant, tech related issues with regard to Annual Benefit Statements. An action plan is in place to address. There are numerous projects ongoing which in totality, should deliver the required service level improvements needed whilst also evolving the Prudential proposition. A key focus for 2022 is to increase the level of on-line data provision and interaction with their clients that will include the planned launch of a self-service website by the end of the year. Prudential recently wrote to the Fund to inform them that there had been some issues with the lifestyle strategies that members are invested in, and members hadn't transferred to lower risk assets as they should have during 2022. This means that some members have higher or lower fund values than they should. Prudential are in the process of identifying the impacted members, calculate if any compensation is due, and will confirm to the Fund in November 2022.
Sustainability	Statement from their website: "As a life insurer, asset owner and manager, Prudential plc is a long-term steward of its clients' assets. We have a responsibility to our clients, the communities and environment in which we operate, to apply Environmental, Social & Governance (ESG) considerations into our investment decisions and our fiduciary and stewardship duties. The purpose of the Group Responsible Investment Policy is to guide the Business Units within the Group to articulate how they consider ESG factors in their investment activities. Prudential believes that ESG considerations are increasingly important elements of good investment practices. The objective of the Responsible Investment Policy and guidelines is to manage ESG risks and improve long run returns on assets. While conflicts of interest could occur, Prudential believes that incorporating ESG considerations in investment decisions and engagement will produce better results for both clients and communities"

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AKG ratings (out of 5) for the open With Profits fund

With Profits Funds	Financial Strength	Future Performance	Transparency
Prudential Assurance Company Ltd With-Profits Sub-Fund	5	5	5

The ratings shown above were originally prepared by AKG Financial Analytics Limited (AKG), and are contained within AKG's 2021 UK Life Office With Profits Report. They are shown here with AKG's prior consent. Further information on AKG's With Profits Report is available at: https://www.akg.co.uk/information/reports/with-profits-reports

ESG Considerations

Net Zero Targets

Prudential

In May 2021, Prudential announced plans to decarbonise its portfolio of assets held on behalf of its insurance companies with the goal of **becoming "net zero" by 2050**. These include:

- A **25 per cent reduction in the carbon emissions of all shareholder and policyholder assets by 2025**
- A commitment to accelerate the transition to a low-carbon economy by **engaging with the companies** responsible for 65 per cent of the emissions in our portfolio

Utmost

Utmost Group (which Utmost Life & Pensions is part of) have committed to a **net zero by 2050 with a 50% reduction by 2030 aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement.** Utmost Group is a signatory to the UN PRI and a member of the IIGCC and is a supporter of the Financial Stability Board's TCFD and endorses its recommendations.

Unit Linked Funds

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Unit Linked Funds

What are Unit Linked Funds?

- Members purchase units in funds which invest according to their particular objective.
- Returns to members are in the form of changes in the value of the unit price.
- Members realise a profit or a loss from an investment when the units in the fund are sold.
- For Clwyd Pension Fund, members are invested in 19 unit linked funds across Utmost and Prudential.

What should we consider when reviewing?

- Tracking error and performance, relative to stated benchmarks, of the funds.
- Any potential value-add from the managers e.g. online services etc.
- Fund charges.
- Mercer ratings, if available.

Utmost – Policy Details

The table below shows the fund value associated with the policy as at August 2022.

Unit-Linked Funds

Fund	Members[1]	Fund Value
UK Equity	1	£105
Managed Pension	10	£75,962
Multi-Asset Growth	2	£3,909
UK Government Bond	1	£186
Money Market	44	£216,495

1. Some members are invested in more one fund.

We recommend the Fund communicate annually with members to ensure selected retirement age is correct and to remind them of the need to regularly review their AVC investments.

Utmost – Fund Performance

Utmost have confirmed that the following unit-linked funds are invested in by members of the Fund:

Fund	Annualised Performance (%)	1 Year (%)		3 Year (% p.a.)		5 Year (% p.a.)	
	Sector Comparator	Fund	Sector	Fund	Sector	Fund	Sector
UK Equity	ABI UK All Companies	-5.0	-15.3	-0.1	-1.9	1.0	-0.4
Managed	ABI Mixed Investments (40-85%)	-7.8	-9.9	0.3	1.3	1.9	2.7
Multi-Asset Growth[1]	ABI Flexible Investment	-10.9	-7.8	n/a	n/a	n/a	n/a
UK Government Bond	ABI UK Gilts	-24.5	-25.9	-10.0	-10.0	-3.8	-3.9
Money Market	ABI Deposit & Treasury	0.1	0.2	-0.1	0.0	0.0	0.0

Source: Utmost, from Provider website. Performance as at 30 September 2022 gross of fees for funds invested by members.

1) Performance not available for 3 and 5 years. Fund inception is 01/01/2020.

Comments and Considerations

Performance for the unit linked funds has been broadly in line with or above the sector comparator over the last 5 years, with exception of the Managed Pension Fund which has underperformed its sector comparator over the period.

Prudential – Policy Details

The table below shows the fund value associated with the policy as at July 2022.

With-Profits Funds

Fund	Members	Fund Value	Terminal Bonus[1]	Transfer Value[2]
With Profits Cash Accumulation Fund[3]	289	£1,947,139	£849,380	£2,776,767

[1]The terminal bonus, which is only applied at the time benefits become payable, is not guaranteed. [2]Includes Market Value Reduction which would be applied to certain members if they transferred.
[3]Also includes the With Profits Accumulation Fund Series 2

Unit-Linked Funds

Fund	Members[1]	Fund Value
Global Equity	38	£150,025
International Equity	33	£285,003
UK Equity	19	£56,746
UK Equity Passive	10	£46,864
Dynamic Growth I	30	£83,955
Dynamic Growth II	86	£502,108
Dynamic Growth IV	149	£505,968
Positive Impact	28	£216,729
Discretionary	54	£371,301
Index-Linked	29	£81,075
Fixed Interest	18	£57,571
Long-Term Gilt Passive	21	£67,209
Deposit Fund	29	£212,257
Cash Fund	104	£916,248

1) Some members are invested in more one fund.

We recommend the Fund communicate annually with members to ensure selected retirement age is correct, to remind them of the need to regularly review their AVC investments and to ensure that members invested in with profits understand the guarantee they have in place and the structure/value of the terminal bonus.

Prudential – Fund Performance

Prudential have confirmed that the following unit-linked funds are invested in by members of the Fund:

Fund	Cumulative / Annualised Performance (%)	1 Year (%)		3 Year (% p.a.)		5 Year (% p.a.)	
	Benchmark	Fund	B'mark	Fund	B'mark	Fund	B'mark
Global Equity	Composite	-8.8	-5.6	1.9	2.5	2.9	3.7
International Equity	Composite	-4.3	-8.2	5.2	4.9	5.2	5.9
UK Equity	FTSE All-Share Index	-12.0	-4.0	9.3	0.8	7.1	2.2
UK Equity Passive	FTSE All-Share Index	-5.1	-4.0	0.4	0.8	2.0	2.2
Dynamic Growth I	Composite	-15.1	-14.9	-2.5	-3.1	0.6	0.2
Dynamic Growth II	Composite	-13.3	-13.7	-1.4	-2.2	1.3	0.9
Dynamic Growth IV	Composite	-10.6	-11.1	0.3	-0.2	2.4	2.2
Positive Impact[1]	MSCI ACWI Index	-6.1	-3.7	n/a	-	n/a	-
Discretionary	Composite	-11.3	-8.1	0.9	1.6	2.6	3.3
Index-Linked	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	-31.7	-29.3	-11.1	-10.7	-3.1	-2.8
Fixed Interest	FTSE Actuaries UK Conventional Gilts All Stocks Index	-24.7	-23.3	-9.7	-9.6	-3.5	-3.4
Long-Term Gilt Passive	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	-36.4	-35.5	-15.9	-15.5	-5.8	-5.6
Deposit Fund	Bank of England Base Rate	0.7	0.8	0.4	0.4	0.5	0.5
Cash Fund	SONIA 1W	0.7	0.6	0.4	0.2	0.5	0.3

Source: Prudential. Performance as at 30 September 2022 gross of fees for funds invested by members

1) Positive Impact fund does not have performance available for the 3 and 5 years period. Fund was launched in 20 February 2020.

Comments and Considerations

Performance for the unit linked funds has been broadly in line with their benchmarks over the last 5 years.

With Profit Funds

5

Overview of typical With Profit Funds

The chart below sets out the progression of a member's fund value throughout the lifetime of a typical with profits investment. The figures shown are for illustrative purposes only.

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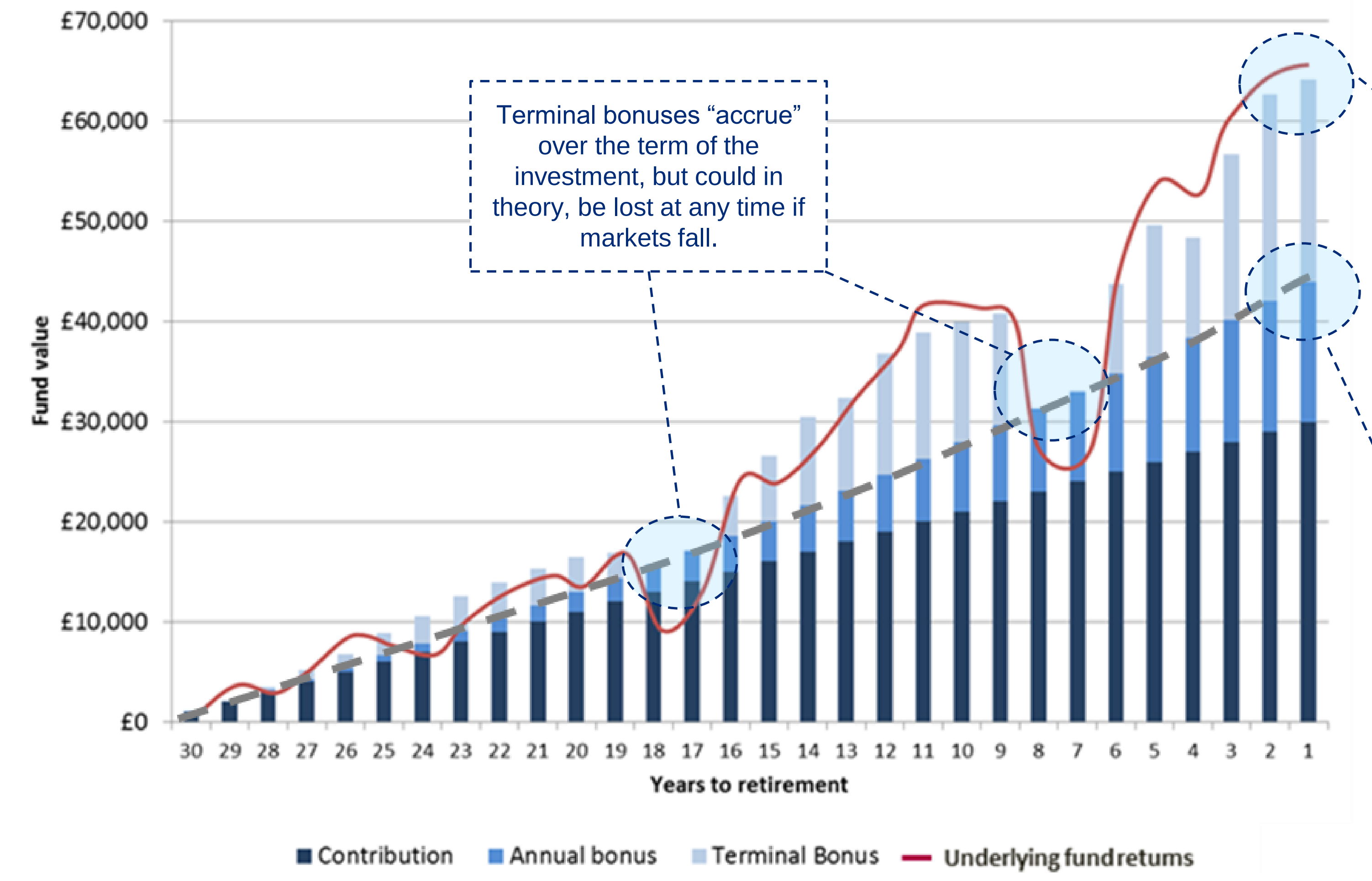

Terminal bonuses "accrue" over the term of the investment, but could in theory, be lost at any time if markets fall.

Returns on the underlying investments can be positive or negative

The value relating to contributions and annual bonuses will not be reduced if benefits are accessed at a contractual exit (death or target retirement age). This provides a potentially valuable capital guarantee. In all other circumstances, the with-profits provider may apply an adjustment referred to as a Market Value Adjustment if the value of the underlying investments fall beneath this level.

Overview of typical With Profit Funds

The Positives

- With profits funds are typically considered to be a fairly secure medium to long-term investment with reasonable potential performance from a pooled mix of assets including equities, property, bonds and cash.
- The costs of running with profits fund are largely deducted from the fund and what is left over is available to be paid to the with profits investors as “bonuses”:
  - Annual (Reversionary) bonus: which may or may not be partially guaranteed, and
  - Terminal (Final) bonus: a final bonus may be added on disinvestment (switch, transfer, retirement or death) depending on the performance of the underlying fund. These bonuses are payable by most (but not all) with profits funds.
- To avoid big changes in the size of bonuses each year, the insurer will hold back some of the return from ‘good’ years to provide a reasonable return during ‘bad’ years. This is known as “smoothing”.

The Less Positives

- Annual Bonuses are a poor indicator of performance. Minimising guaranteed bonuses reduces the proportion of the with-profits fund which insurers have to invest cautiously (to protect their solvency position). On the other hand, low bonuses may just reflect poor underlying investment performance and/or low solvency reserves.
- Terminal / Final bonuses can be a huge proportion of the overall return and, in theory at least, they could be withdrawn overnight.
- Guarantees (within the with-profits fund rather than a specific policy) can necessitate a more cautious underlying investment strategy, to maintain the insurer’s solvency. This can severely restrain future investment performance for other policyholders too.
- Insurers can impose a Market Value Reduction (MVR) if disinvestment is other than (usually) the pre-selected retirement date or prior death. This could more than negate a terminal bonus and may be viewed by a member as a financial penalty on transfer.
- Historically, payout examples were provided via insurers’ regulatory returns, but these ceased to be available in 2017 due to the Solvency II Directive.

With Profit Funds

Valuation and bonuses

Fund	Members	Fund Value	Terminal Bonus[1]	Plan Value	Market Value Reduction	Transfer Value[2]
With Profits Cash Accumulation Fund[3]	289	£1,947,139	£849,380	£2,796,519	£19,752	£2,776,767

[1]The terminal bonus, which is only applied at the time benefits become payable, is not guaranteed. [2]Includes Market Value Reduction applied to certain members.
[3]Also includes the With Profits Accumulation Fund Series 2

- The Trustee's policy guarantees a minimum annual bonus of:
  - 4.75% p.a. in respect of contributions paid in Fund years ending before 15 March 1997;
  - 2.5% p.a. in respect of contributions paid into the Fund in years ending between 15 March 1997 and 30 December 2003 (inclusive); and
  - 0.01% p.a. in respect of contributions paid into the Fund in years ending after 30 December 2003.
- The annual bonus for 2020 was 1.25%, while for 2021 was 1.00%, where the higher guaranteed rates didn't apply.
- Members may receive a terminal bonus, however this is not guaranteed and could be reduced without notice.

Charges

6

Utmost – Fund Charges

Utmost have confirmed that the following unit-linked funds are invested in by members of the Fund:

Charges to 30 September 2022	AMC (% p.a.)	TER (% p.a.)
UK Equity	0.75	0.75
Managed	0.75	0.75
Multi-Asset Growth	0.75	0.75
UK Government Bond	0.50	0.50
Money Market	0.50	0.50

Source: Utmost, from provider's website, as at 30/09/2022. These figures may not reflect the charges faced by the mermbers.

In addition, Utmost offer several other fund options which are available to members.

Prudential – Fund Charges

Prudential have confirmed that the following unit-linked funds are invested in by members of the Fund:

Charges to April 2022	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.)[1]
Global Equity	0.65	0.66	0.06
International Equity	0.65	0.68	0.01
UK Equity	0.65	0.66	0.07
UK Equity Passive	0.55	0.56	0.12
Dynamic Growth I	0.62	0.64	0.00
Dynamic Growth II	0.62	0.64	0.05
Dynamic Growth IV	0.62	0.63	0.05
Positive Impact[1]	0.65	0.66	0.01
Discretionary	0.65	0.67	0.06
Index-Linked	0.65	0.66	-0.14
Fixed Interest	0.65	0.66	0.15
Long-Term Gilt Passive	0.55	0.56	-0.01
Deposit Fund	N/A	N/A	0.00
Cash Fund	0.55	0.55	0.00

Source: Prudential. AMC and TER as at April 2022

1) Transactions cost as at March 2022

In addition, Prudential offer several other fund options available including lifestyle options.

Recommendations & Next steps

7

Recommendation & Next Steps

We have not considered a transfer away from Utmost or Prudential in this report, given that the AVC market is extremely limited and there are unlikely to be providers who will offer to open a new AVC arrangement. While consolidation between the two providers is possible, given the charges from Utmost it would only be appropriate to consolidate to Prudential.

Unit-Linked Funds

- Unit-linked fund performance has been broadly good for Utmost and Prudential over the period shown.
- We recommend the Fund write to members to remind them of the need to regularly review their AVC investments and remind members over 50 of their benefits and the help available to consider the best options for them.
- We also recommend that the Fund's administrators confirm that the members with AVCs have not already drawn their Defined Benefit pension.
- There is currently no ESG-integrated fund available to members. Prudential do have several which could be added to the fund line up if appropriate.

With Profits Funds

- Members with Prudential have terminal bonuses currently applying on their policies. Depending on when the funds were purchased, members may have guaranteed annual bonuses. We note that terminal bonuses are not guaranteed and could be withdrawn with no notice.
- We recommend the Fund communicate with members to ensure their selected retirement ages are correct and to ensure that members understand the guarantee(s) they have in place and the structure/value of the terminal bonus and consideration of the impact of any MVA.

Given the challenges in the AVC market, the only option for consolidation would be to move the Utmost members to Prudential, however given the challenges experienced from Prudential at the moment we do not recommend this at this time.

We therefore recommend that AVC members are sent a communication to remind them about the funds they are holding and the implications of moving funds before retirement; highlighting the Lifestyle strategies at Prudential that target cash.

Please note: This report does not contain regulated investment advice or regulated non-investment related advice. It sets out recommendations deemed appropriate based on the analysis provided in this presentation. Any actions to be taken from these recommendations need to be accompanied by regulated advice in accordance with Section 36 of the Pensions Act 1995.

Appendix

AVCs – Why this requires attention
Case Study

Client had a 1,000 person DB Scheme. AVC arrangements were not reviewed over many years

The Scheme had AVCs with:
- Aviva
- Prudential
- Phoenix Life

AVC investments with Phoenix Life were invested in Deposit Funds, and had been since 1998 without the Trustee undertaking a review on suitability

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A Phoenix Life member made a complaint through his IFA citing the Trustee not delivering the required level of AVC governance

The Ombudsman ruled in favour of the member which involved significant investigative time from Trustees (in this case) and their advisors

An agreed compensation amount was paid to the member by the Trustee. All other members invested in the Deposit Fund over this period of time were also included for a compensation payment.

The cost of investigation work to resolve the complaint was £35,000.

The compensation cost for all affected members was £140,000

All AVC arrangements were subsequently reviewed. Issues identified were AVC members that had taken main scheme benefits, members who had died, unsuitable investment choices, poor member communications.

Changes were made as a result of the AVC review including consolidating to 2 AVC providers.

Members achieved better outcomes and risks to Trustees reduced.

Transaction Costs
Slippage cost method

- Since April 2015, there has been a need to calculate and assess transaction costs as part of the DC value for money requirements and legislative disclosures in the annual Chair Statement.
- However, until 2018/2019 there was limited guidance as to how these costs should be calculated.
- It has now been clarified that in calculating of the transaction costs associated with buying and selling, managers must use the ‘slippage cost methodology’, as shown below.

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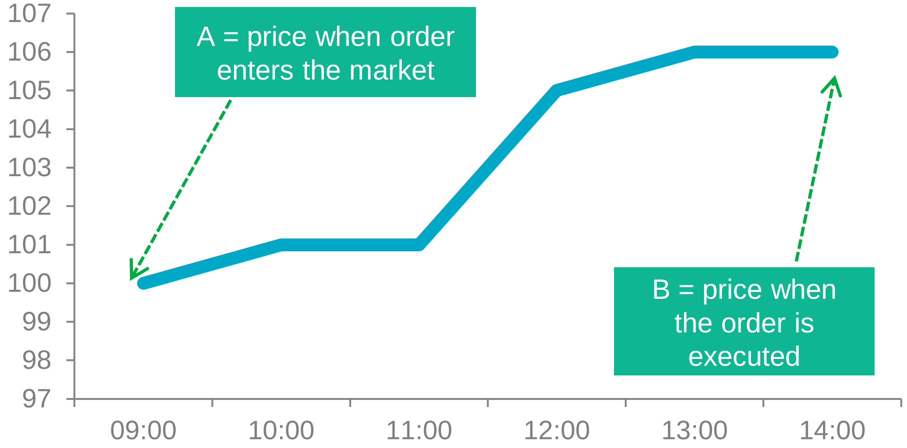

Slippage costs = (Execution price – Arrival price) x n

Arrival Price *= A*
Execution Price *= B + all charges, commissions, taxes and other payments associated with the transaction*

EXAMPLE

A fund manager wishes to buy 1,000 shares. If the order goes in at 9am but the shares are not purchased until 2pm, the price of those shares could have moved in those 5 hours.

In the chart, the price has moved from 100p to 106p, meaning the price change is £60 for 1,000 shares. Also, some commissions and taxes will have been experienced (e.g. £5).
Therefore, the overall ‘slippage cost’ is £65.

- Slippage costs seek to capture the change in value when an investment is traded. This takes account of explicit and implicit costs associated with market movements. However, slippage costs can be positive or negative depending on how the market moves between arrival and execution and depends on the time period used.
- This makes comparisons across peers meaningless. At this stage it is therefore not possible to benchmark transaction costs against other arrangements. However, based on our review of the data we consider the transaction costs to be broadly as expected and similar to those observed by other schemes.

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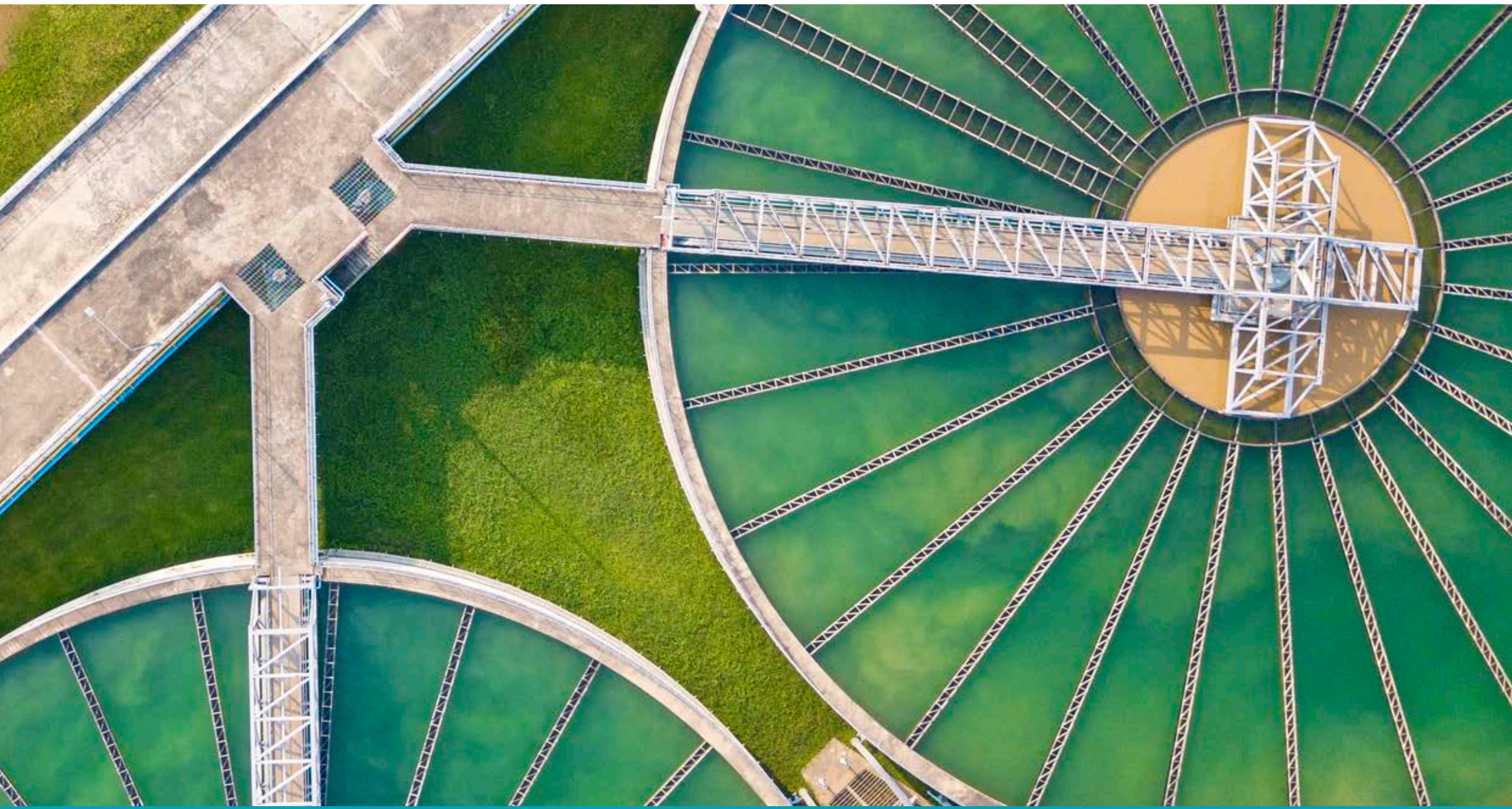
The Investment Engineers



ACTIVE OWNERSHIP REPORT

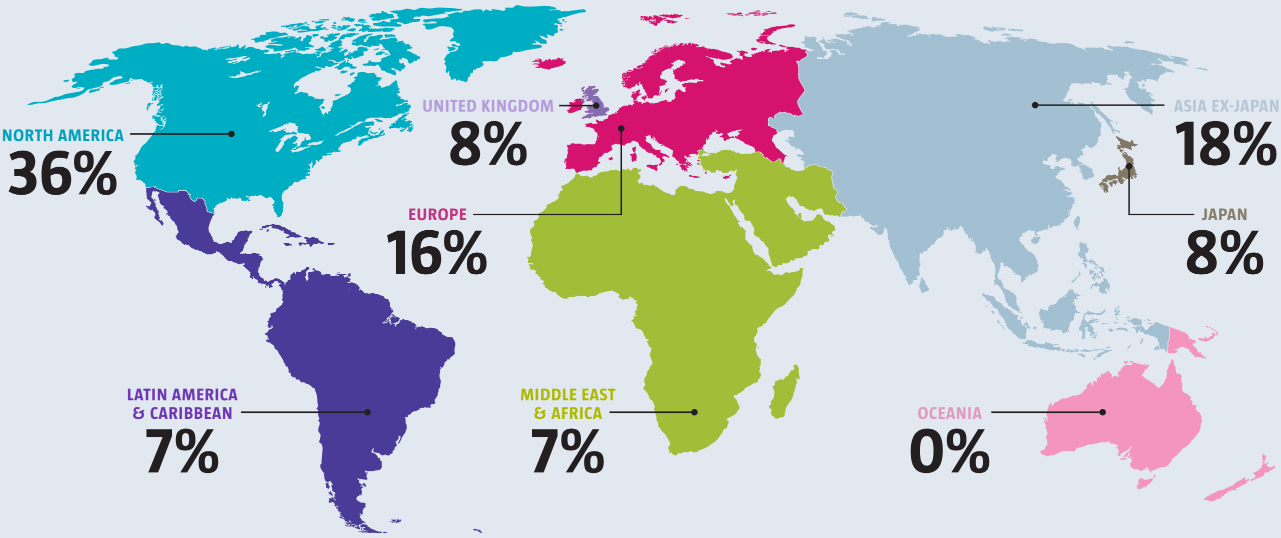
ROBECO | 01.07.2022 - 30.09.2022

Q3 2022

Sustainable Investing Expertise by ROBECOSAM

Q3|22 FIGURES ENGAGEMENT

Engagement activities by region



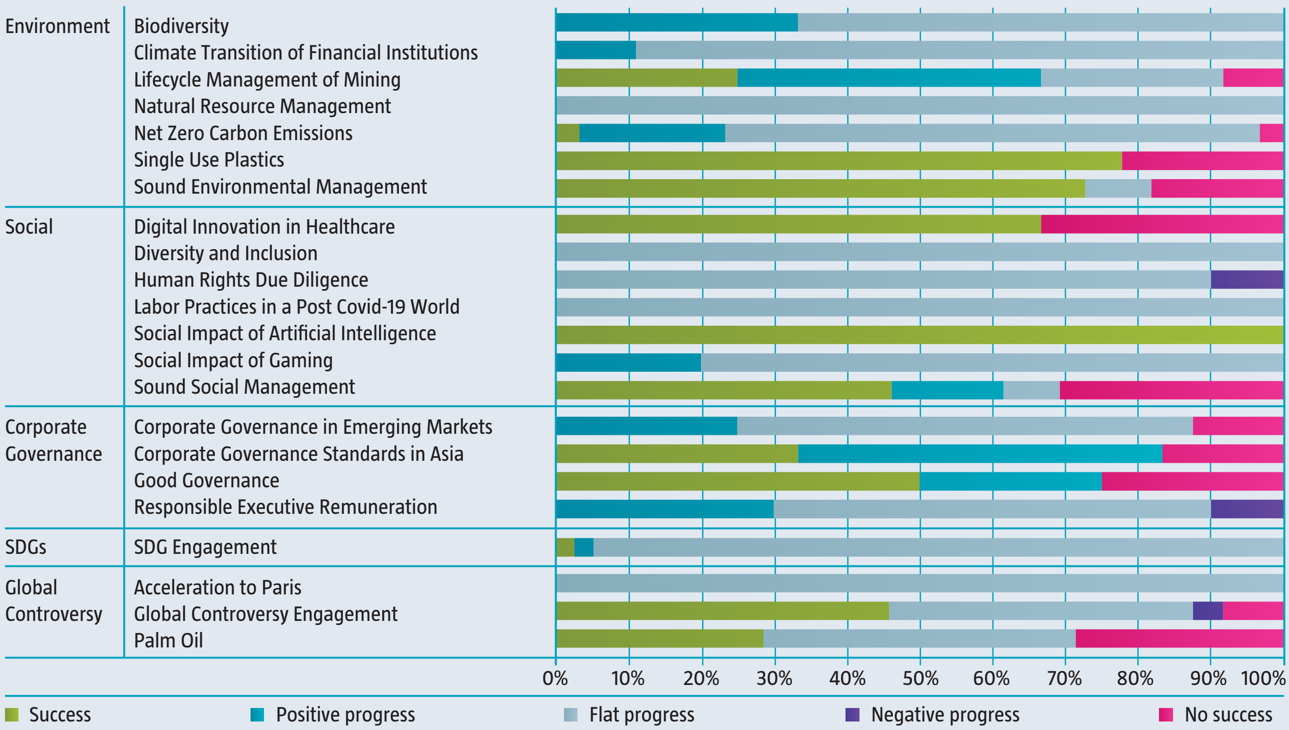
Number of engagement cases by topic*

	Q1	Q2	Q3	Q4
Environment	47	55	36	
Social	20	26	21	
Corporate Governance	19	20	12	
SDGs	15	30	18	
Global Controversy	25	19	13	
Total	126	150	100	

Number of engagement activities per contact type

	Q1	Q2	Q3	Q4	YTD
Meeting	1	1	4		6
Conference call	78	90	56		224
Written correspondence	88	125	76		289
Shareholder resolution	0	1	0		1
Analysis	16	27	19		62
Other	1	9	1		11
Total	184	253	156		593

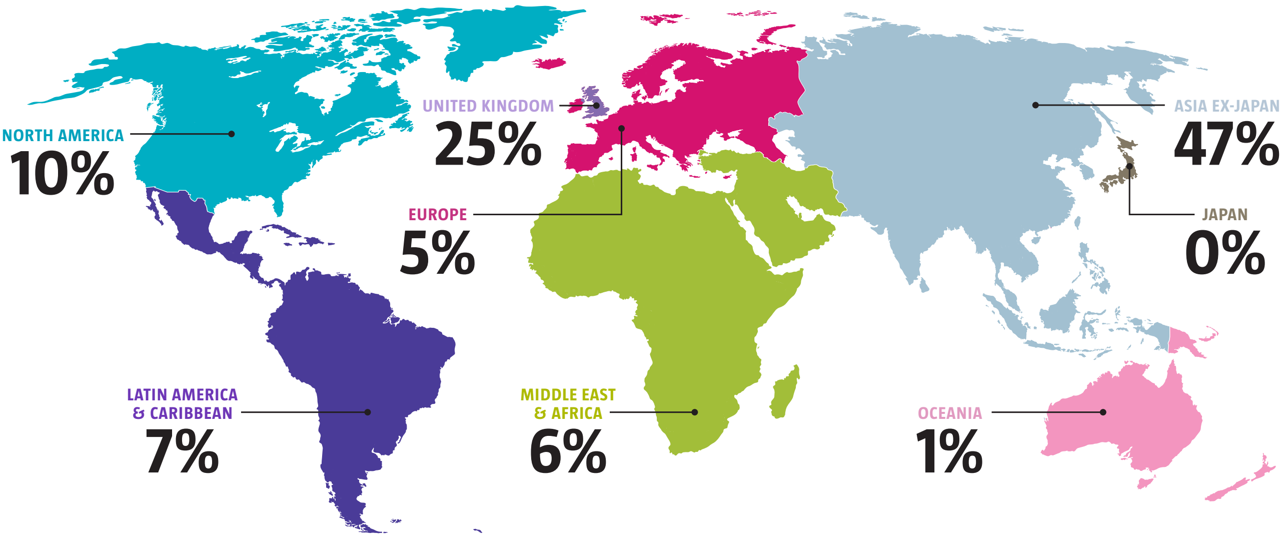
Progress per theme



* Due to a change in Robeco's methodology to account for engagement cases, numbers are expected to differ from previous quarters.

Q3|22 FIGURES VOTING

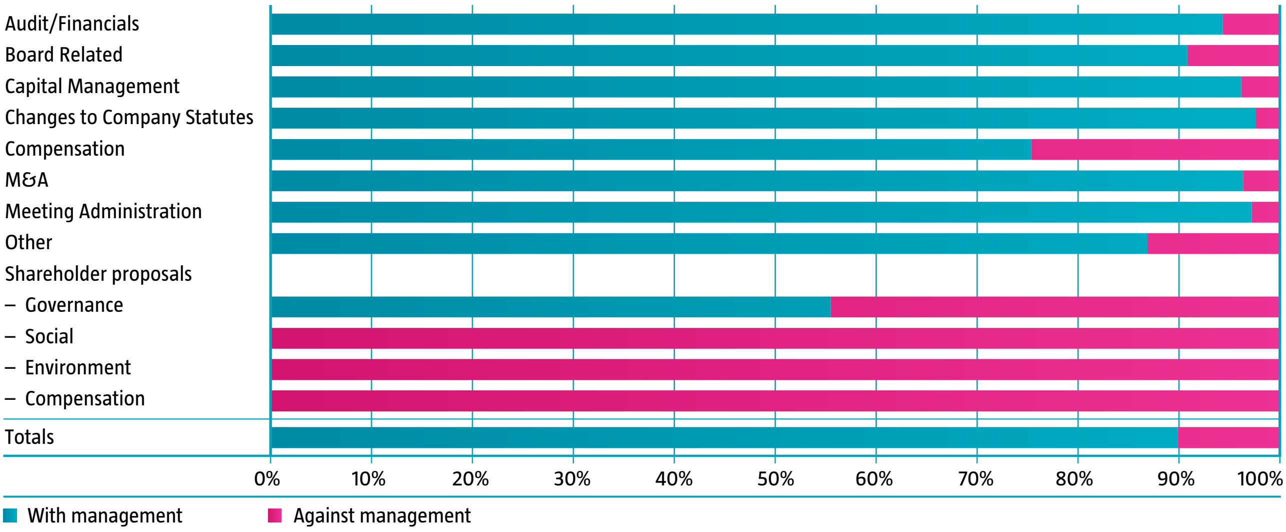
Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	101	725	160		986
Total number of agenda items voted	1,187	10,531	1,688		13,406
% Meetings with at least one vote against management	62%	76%	49%		70%

Votes cast per proposal category



CONTENTS

INTRODUCTION

During the third quarter of 2022, Robeco has been actively pushing the frontiers of sustainable investment by sharing our intellectual property with our clients, while continuing to work with our investee companies on the engagement areas we deem most critical.

The new quarter was marked by a great step forward for Robeco and its clients as we launched our Sustainable Investing (SI) Open Access Initiative. Through this initiative, we are sharing some of our most valuable proprietary data with our clients and academics, including Robeco's proprietary Sustainable Development Goal (SDG) scores and methodology, in the hope that we can work together to build a more robust sustainable investment landscape.

Meanwhile, on the engagement side, we have launched two new engagement themes. Our new Diversity and Inclusion engagement program is working to address the societal inequalities mirrored throughout gender and ethnic pay gaps, discriminatory company policies and unequal promotional opportunities. By considering their most vulnerable employees at each step of their human capital management, companies can strengthen employee attraction, lower turnover costs and benefit from diverse perspectives and skillsets. Through this theme, we hope to help companies elevate each part of their workforce, and thus create value for both them and society.

On the environmental side, in line with the rising summer temperatures and climate change-induced droughts across the world, we have initiated a new engagement stream on Natural Resource Management. This focuses on companies working in water and/or waste-intensive sectors and will look not only at strengthening companies' water and waste policies, but also whether they have strong operational processes around emergency situations. The engagement theme will also address chemical waste and seabed mining and tailings.

Elsewhere in this report, we provide an update on some of our ongoing engagements. With the quarter marking the mid-point of our three-year engagement around the Climate Transition of Financial Institutions, we see that only few banks are on credible net-zero trajectories. Many still lack adequate targets and essential carbon emissions data throughout their loan books. These are all issues that were echoed by the shareholder proposals we supported at numerous banks during the 2022 proxy voting season.

The aftermath of the proxy season always provides grounds for engagement on the topic of Responsible Executive Remuneration, as companies are trying to understand investors' reasons for voting against pay-related agenda items. During our update, we delve into some of the best practices we advocate for when it comes to executive remuneration, as well as some concerning trends we see across companies. These include the growing use of ill-designed sustainability-linked performance pay packages which are being used as a remuneration cushion, rewarding executives during times of bad company performance.

We enter the new quarter with clearly laid out engagement priorities and a strong mandate for transparency and look forward to the change to come.

Carola van Lamoen
Head of Sustainable Investing

Focus on companies' impacts on human and natural resource management

DIVERSITY AND INCLUSION & NATURAL RESOURCE MANAGEMENT

LAURA BOSCH – *Engagement specialist*
ANTONIS MANTSOKIS – *Engagement specialist*
SYLVIA VAN WAVEREN – *Engagement specialist*

More and more investors are moving beyond measuring sustainability only through the material environmental, social and governance (ESG) risks companies are facing, and increasingly try to identify the impacts that companies' activities have on society, whether through their products or processes. In this interview, Laura Bosch, Antonis Mantsokis and Sylvia van Waveren share how Robeco's new Diversity and Inclusion, and Natural Resource Management themes aim to explicitly address some of the key adverse environmental and social impacts companies can have.

Why are we launching these engagement themes, and where do they differ from other programs?

The focus of sustainable investing is increasingly shifting from the idea of single financial materiality to the concept of double materiality, whereby the focus is no longer only on how sustainable development impacts companies but also how companies contribute to this development. This includes both positive and adverse impacts, where addressing adverse impact has been the key driver behind our new engagement themes. Adverse impact as a concept ranges from water emissions and negative biodiversity impacts to social violations and gender pay gaps. Impacts which the European Commission is now making investors report on, in particular through the Principal Adverse Impact Indicators (PAI) defined in the EU Sustainable Finance Disclosure Regulation (SFDR). The regulation requires investors in the EU to disclose performance against at least the mandatory PAIs for their holdings, using a set of ESG metrics reflecting their negative externalities.

While we have been addressing adverse impacts within our engagement program for many years, we took the opportunity to identify potential gaps in our engagement approach using the mandatory list of PAIs in 2021. As a result of the analysis, we are now launching two new engagement themes explicitly covering Diversity and Inclusion and Natural Resource Management. The two themes aim to support companies in facing some of their core negative impacts around their human and natural resource management, and push for more transparency as required by the PAIs.

These engagement programs differ from our conventional themes as they were designed to incorporate a higher degree of flexibility. They need to gradually increase coverage, as they follow the development of PAI-related data and increasing engagement demand. The two themes are expected to run continuously, instead of over the usual three years. Moreover, timelines for the engagement dialogues can be shortened if successful outcomes are achieved at an earlier stage.

DIVERSITY AND INCLUSION

sitting down with Laura Bosch and Antonis Mantsokis

Firstly, looking at Diversity and Inclusion – why is this relevant for investors?

The relevance of Diversity and Inclusion (D&I) for investors can be understood through the double materiality lens. From a financial standpoint, D&I can enhance corporate performance in many ways: recruiting and retaining the best talent, having stronger customer orientation, enhancing corporate reputation, and improving decision-making and innovation outcomes. Many industries are becoming increasingly knowledge-intensive, which is materialized financially by the more prominent role that intangibles play in global balance sheets.

Therefore, human capital management strategies, including the promotion of diversity and inclusion, are significantly important in determining a company's underlying quality and intrinsic value. Investors should therefore integrate such factors into their investment approach to formulate better-informed decisions.

At the same time, the benefits stemming from an inclusive and diverse workforce flow through to the macro environment and have a societal impact. Barriers for women and minorities to enter the labor market, such as pay distortions, social and cultural factors, and outright discrimination, work against achieving parity and have a financial cost. Poor allocation of human resources that wastes an individual's education, talent and potential, contributes to this cost. The resultant welfare gains after removing the obstacles are estimated to be more significant. Providing employment opportunities and equal remuneration to minority groups can minimize structural wealth gaps between societal groups. Subsequently, this would have a direct impact on society and the economy as a whole.

What are the aims of the theme?

We formulated five engagement objectives to facilitate our dialogue on D&I. The first step towards creating a more diverse workforce is developing a D&I policy, resulting in a higher-level commitment and a consistent approach to advance D&I throughout the company. It should include a set of time-bound goals that are sufficiently ambitious to effectively diversify a company's workforce. Once these goals are in place, a critical next step is to clearly define how to establish D&I as a priority among corporate leaders and hold them accountable for their contributions. This includes having a sufficiently diverse leadership and board of directors, latter of which is measured by the PAIs.

Our second objective focuses on how companies define their D&I implementation strategies and measures of success for aligning their talent management strategy with their business goals and D&I objectives over the different stages of the employee lifecycle. Thirdly, we encourage companies to disclose workforce diversity data, focusing not only on ethnic or gender diversity across different employment bands and employee levels, but also incorporating other diversity components.

The fourth objective focuses on overall pay equality. Companies should undertake audits to ensure they address any pay gaps in their D&I strategy. We expect companies to provide quantitative statistics, complemented by qualitative assurances, for both adjusted and unadjusted median pay gaps, as required by the mandatory PAIs. Finally, we encourage companies to promote an inclusive culture by taking a strategic approach to shaping attitudes and behaviors in the workplace that can shift workplace culture in a meaningful way.

How do you decide which companies should be under engagement?

The lack of data is the main challenge identified by investors when assessing companies' efforts on diversity and inclusion. With that in mind, we first identified those industries where disclosure of diversity data is lagging. We looked at the PAI indicators using data produced by MSCI and the S&P Global Corporate Sustainability Assessment (CSA). For our engagement, we prioritized the 20 industries with the lowest levels of disclosures.

Within those selected industries, we identified the first set of companies by screening those that fail to disclose their unadjusted gender pay gap, in line with PAI requirements, and also did not answer the diversity-related questions in the CSA questionnaire. The questionnaire

'ONCE (D&I) GOALS ARE IN PLACE, A CRITICAL NEXT STEP IS TO CLEARLY DEFINE HOW TO ESTABLISH D&I AS A PRIORITY AMONG CORPORATE LEADERS AND HOLD THEM ACCOUNTABLE FOR THEIR CONTRIBUTIONS.'

LAURA BOSCH | ANTONIS MANTSOKIS

looks at aspects like age, disabilities, sexual orientation and broader human capital-related factors. We also considered gender-focused data sources, namely RobecoSAM's gender score and the Equileap score, which assess the inclusion of women across companies. Additionally, we collaborated closely with our portfolio managers and analysts to decide upon the final selection of companies.

What other actions will be taken in line with this engagement?

The Black Lives Matter and MeToo movements both highlighted the negative impact of today's systematic inequalities. Investors have increasingly been putting pressure on companies by supporting social-related shareholder resolutions, and stakeholders are holding those companies that do not promote D&I to account.

In line with this engagement, we will continue to vote against management on specific agenda items when the company fails to incorporate minimum standards on gender diversity at the board level. We will continue to evaluate issues on a case-by-case basis, and support those shareholder resolutions that aim to resolve social issues such as racial equality. Additionally, we will explore filling shareholder resolutions focusing on promoting D&I in those companies where we see no progress and the social issues continuously persist.

What challenges do you expect to face and what are the outcomes you expect to achieve?

Promoting D&I is a challenging topic at its core due to differences in company cultures and regional practices. There are many benefits stemming from promoting diversity metrics or goals, and having D&I policies in place. However, practically improving inclusion is not always addressed with equal importance, and it is much more challenging to measure it. In many cases, it isn't easy to assess if the spirit of the policies in place is accomplished in practice.

Another significant hurdle that we expect to face is how to equally address all aspects of diversity, and move the conversation beyond simply looking at gender. There are still many countries where identifying as LGBTQ+ remains illegal, and cultural norms prohibit companies from promoting an inclusive culture. Moreover, processing employees' D&I-related data is prohibited in many countries, due to privacy restrictions (i.e., GDPR in the EU), making it difficult to have targeted policies. In addition, companies usually focus on promoting female representation on the board or at the top management levels, and stick to a mechanical implementation of gender-only quotas. Promoting practices that address the benefits of the integration of various minority groups will be challenging.

Lastly, pay equality is an issue not easy to resolve. According to World Economic Forum's Global Gender Gap report 2020, it will take 257 years to achieve equal pay for women and men at work at the current rate. Pay disparity, though primarily gender-focused, also exists regarding race, ethnicity, sexual orientation, disabilities and age. Thus, it is challenging to promote structural solutions in pay equality when in many countries there are no regulatory requirements to tackle the broader aspects of the pay gap.

ENGAGING ON NATURAL RESOURCE MANAGEMENT

by Sylvia van Waveren

Moving to the environmental front - Why is Natural Resource Management relevant for investors?

The world is facing a dire shortage of freshwater, a situation that is set to only get worse due to urbanization, population growth, climate change and socio-economic development. The World Research Institute's Aqueduct Water Risk Atlas reveals that 44 countries currently face high baseline water stress covering one-third of the world's population.

Companies operating in highly water-stressed regions are not only exposed to these risks but also often enhance them through their own water usage and pollution. Disregarding both their impacts and risks can impact corporate valuations through higher operating costs, thus threatening their viability if they do not sustainably manage their water use. This risk is estimated to amount to USD 301 billion for companies, while the cost of addressing their adverse impacts is estimated to be less than one-fifth of that, at USD 55 billion.

It is therefore important for investors to engage with such companies on having resilient water management strategies. Those with poor strategies are more likely to experience production disruptions, stranded assets and community conflicts, all resulting in higher comparative operational and fixed costs which will reduce their overall rate of return.

What are the aims of the theme?

To act upon these risks, Robeco has expanded its environmental engagement program to include the responsible management of natural resources and the mitigation of adverse impacts on the environment. The engagement theme aims to address the impacts of corporate operations related to their intensive water use and generation of waste.

Our engagement strives to minimize risks through a set of objectives that aim to enhance corporate disclosures on their management of water and waste issues. The engagement will also address major issues such as seabed mining and tailings, and the gross emissions of PFAS chemicals into waterways.

How will you assess which companies should be under engagement?

Companies need to account for the amount of freshwater that is needed to make certain products – often drawn from places where water is already scarce. The discharge of wastewater also remains problematic and therefore needs to be addressed. To address these issues, we focus on companies for which the management of water and waste generation and disposal management is a financially material issue, or where corporate operations have a significant actual or potential negative environmental impact due to water or waste issues.

Thus, in our water engagements, the focus is on companies operating in high water-stress areas as well as those deemed to have high water consumption. In the waste engagements, the focus is on companies that generate hazardous waste such as PFAS chemicals and (threaten to) pollute the environment, including companies exploring seabed mining and tailings.

In July 2022, we started engaging with the first group of six companies. They were chosen using a bottom-up and fundamental approach by Robeco's research and investment analysts. They belong to three sectors: Chemicals (fertilizers and mines); Oil and Gas (shale gas); and Paper and Pulp (operating in South Africa, a water scarce area).

What other actions will be taken in line with this engagement?

We have developed a water and waste management framework tool to assess how well a company has incorporated the management of such risks into their practices. This framework, depicted in Figure 1, evaluates several indicators related to their water and waste policies, their risk management programs, their metrics, targets and disclosures, among others. The insights from this assessment inform our engagement priorities and facilitates the tracking of progress against our engagement objectives.

Figure 1 | Water and waste management evaluation framework

Level 0
Unaware

Companies are neither aware nor acknowledge water/ waste management risks.

Level 1
Aware

The company acknowledges that water stress and/or waste generation present business risks. The company adopts a water and waste management policy including initial water and waste risk reporting.

Level 2
Capacity Building

The company develops and evaluates its water and waste policies, its management systems and processes, and starts to report on practice and performance.

Level 3
Operational Integration

The company improves its operational practices, assigns senior management or board responsibility for water or waste management and provides comprehensive disclosures on its water use or waste management practices and performance.

Level 4
Strategic Risk Assessment

The company develops a more strategic and holistic understanding of the risks and opportunities related to the high water use and waste generation and integrates this into its business strategy, its remuneration policies and its capital expenditure decisions.

Another important action is recording incidents and controversies that had adverse environmental impacts, such as water depletion and pollution. Frequent involvement in these types of incidents is a sign of exposure to ESG risks and a company's failure to manage them. Incidents that go unmanaged can potentially lead to an erosion of shareholder value. We base our work on UN Global Compact and OECD guidelines.

What have been your first insights and how will you continue?

We expect that our methodology to identify companies to engage with will continue to evolve and be refined as the relevant data continues to improve and become more broadly available, including that used to measure the SFDR PAIs. We believe that engagement is one of the tools that we can use in addressing and mitigating adverse impacts at the company level and were pleased with companies' initial openness to discuss their approach to natural resource management.

Financing the climate transition

CLIMATE TRANSITION OF FINANCIAL INSTITUTIONS

ROBERT DYKSTRA – *Engagement specialist*

It has become increasingly clear that the banking sector has a critical role to play in the low-carbon transition. Banks can facilitate investments in low-carbon solutions and encourage emission reductions through climate-aware financing and engagement with their clients. Banks that continue to finance activities not aligned with the low-carbon transition create significant transition and physical risks associated with accelerating global warming.

The fast-evolving landscape

Various stakeholders including investors, governments and the public have put an increasing amount of pressure on the financial sector to advance the economy-wide transition towards net zero emissions. This was highlighted at COP 26 in November 2021, which saw several guidelines emerge to help financial institutions measure their 'financed emissions' – those associated with loans, investments and other financial products. These guidelines include the Partnership for Carbon Accounting Financials (PCAF), the Paris Agreement Capital Transition Assessment (PACTA) and the Science Based Targets Initiative's (SBTi) guidance for the financial sector. Several other initiatives have also been started to help the financial sector align with net zero, such as the Glasgow Financial Alliance for Net Zero (GFANZ) and the Net Zero Banking Alliance (NZBA).[1]

While many banks are dealing with operational challenges such as emission data collection and new governance structures, the expectations around disclosures and targets are becoming ever-more stringent. For example, the NZBA has outlined a timeline for setting sector-specific decarbonization targets by 2024. However, these targets should also be aligned with a credible net zero emission scenario, such as the ones established by the International Energy Agency (IEA). Several banks have already set targets that now need to be readjusted to be aligned with a particular scenario. Many banks are also expected to disclose fossil fuel lending policies that outline the criteria for denying clients access to loans or capital markets.

A collaborative engagement approach

With our three-year engagement program on the climate transition of financials having reached its mid-point, we take stock of the progress made and upcoming challenges that banks will face in executing their climate strategies. At the start of this engagement theme, we selected 10 banks amongst our and our clients' portfolios with significant exposure to carbon-intensive assets.

To maximize the effectiveness of our engagement strategy, we collaborate with the Institutional Investor Group on Climate Change (IIGCC), which coordinates a larger investor initiative on banks' climate strategies. The IIGCC, in partnership with the Transition Pathway Initiative (TPI), is developing a framework to assess how prepared banks are for the low-carbon transition. The framework consists of many indicators that have been selected following significant investor consultation and tested on 27 banks from across the globe based on disclosures published up to February 2022. Over the coming months, the IIGCC and TPI will continue their consultation on these indicators to improve and fine-tune the framework so that a final version can be published in late 2022.

'BANKS SHOULD EXPAND THEIR NET ZERO COMMITMENTS TO INCLUDE ALL HIGH-RISK SECTORS IN ALL MATERIAL BUSINESS SEGMENTS. THIS MEANS NOT ONLY FOCUSING ON REDUCING FINANCED EMISSIONS THROUGHOUT THEIR LOAN BOOKS, BUT ALSO IN CAPITAL MARKET ACTIVITIES SUCH AS UNDERWRITING AND M&A.'

ROBERT DYKSTRA

The indicators are grouped into the following six areas and provide a comprehensive picture of a bank's net zero transition plan:

1. Net zero commitments
2. Short and medium-term targets
3. Decarbonization strategies
4. Climate governance
5. Climate policy engagement
6. Audit and accounts.

Based on the first round of assessments conducted earlier in 2022, average alignment with credible net zero trajectories amongst banks is relatively low. This is in part due to the lack of disclosure of carbon emission data throughout their loan books, but also because of insufficient target-setting at the time of the assessment. These six elements of the framework correspond with our existing engagement objectives, which are based on the four pillars of the Task Force for Climate-related Financial Disclosure (TCFD).

Future steps and upcoming challenges

The assessment outlines several areas for banks to improve their climate strategy, primarily through enhanced disclosures and financed emission reduction targets. Specifically, banks should expand their net zero commitments to include all high-risk sectors in all material business segments. This means not only focusing on reducing financed emissions throughout their loan books, but also in capital market activities such as underwriting and M&A.

1. An overview of Robeco's sustainable investing memberships, statements & principles can be found here: www.robeco.com/docm/docu-relevant-codes-and-memberships.pdf

More transparency on how banks engage with clients is also expected in the coming years. For instance, banks should disclose explicit financing conditions for clients whose transition plans are not aligned with a net zero emissions pathway. These conditions could be outlined in a dedicated coal or oil and gas lending policy which we have seen at several major banks. This includes aligning all high-risk sector policies with a 1.5°C warming scenario. For example, the IEA's Net Zero Emissions by 2050 scenario requires banks' coal sector policies to include:

- No financing of additional capacity for thermal coal operations.
- Phasing out of financial services and portfolio exposure to unabated coal-fired power generation by 2030 in the EU and OECD countries, and in the rest of the world by 2040 at the latest.

These expectations have been echoed by shareholder proposals filed at numerous banks during the 2022 proxy voting season. Banks were asked to define their commitment to being net zero by 2050 and include a timeline by which they would stop all lending related to new fossil fuel supplies. Many banks found these requests overly prescriptive, as they did not take into account regional discrepancies in energy demand, such as heavier coal dependency in emerging markets. Nonetheless, large groups of shareholders, including Robeco, supported these proposals with the aim of making banks' net zero commitments more credible.

In the upcoming second half of the engagement theme, we will use the outcomes of this assessment framework to emphasize the changes that we expect banks to make. So far, several banks are making significant progress, while others appear to be lagging. This is in part due to the varied pressure banks anticipate from looming sustainability regulations in the EU and North America.

Overall, the governance around climate-related financing has been one of our engagement objectives that has seen the most progress. Unfortunately, our objectives around risk management and strategy have seen the least progress. Therefore, we will push for improvements in sector decarbonization strategies and scenario analyses in our upcoming dialogues. ■

CASE STUDY

Our engagement with Sumitomo Mitsui Financial Group (SMFG) is conducted through three different channels: directly with the company; collaboratively through the Asia Research and Engagement (ARE) group; and as members of the IIGCC. Over time, we have seen an increase in the bank's receptiveness to investor feedback. As an example, SMFG was previously a laggard in the disclosure and transparency of its climate-related financing. However, once the company recognized that investors had short-term expectations related to net zero commitments, the bank began to act. SMFG reorganized its internal governance structure to allocate more resources to climate risk management and data collection throughout its business segments. These changes have in turn led to a significant increase in the quality of available disclosures.

The pay for performance crisis

RESPONSIBLE EXECUTIVE REMUNERATION

MICHIEL VAN ESCH – *Engagement specialist*

Executive remuneration often is one of the touchiest topics between investors and company managements. Firstly, there is the discomfort of a group of outsiders forming an opinion on how (and how much) someone should get paid. Secondly, there are often discrepancies between how well management think they have performed and whether investors agree that this actually has created value for them. Yet, the topic of executive remuneration has been relevant since the foundation of the first public stock company and remains a key governance instrument today.

In 2019, the EU's amended shareholder rights directive SRD 2 was passed into national legislation across the continent, giving shareholders the right to a vote on remuneration on a structural basis. Similar as in the US, shareholders have an advisory vote on the remuneration report. But they also get a formal say on the review of the remuneration policy at least every four years.

In the second half of 2020, Robeco conducted research into best practices for executive remuneration. An engagement project was initiated in order to make use of the new opportunities that the shareholder rights directive offers. For a set of European and US companies we have focused our engagement practices to improve corporate pay practices on four focus areas. These are (1) to better align pay with performance (including performance on sustainability); (2) to promote equity holding requirements (rather than option structures or cash pay-outs) to have a more straightforward alignment with shareholders; (3) to use ratios and benchmarks in order to avoid excessive pay discrepancies between and within organizations; and (4) to have strong and independent oversight from the supervisory board and feedback mechanisms towards its shareholders.

Taking stock of SRD 2

After a year and a half of engagement, it is safe to say that SRD 2 has had an impact. Almost directly after its implementation, we saw several remuneration practices being voted down, and requests for feedback calls picking up. Additionally, many companies are starting to look into incorporating non-financial measures (often ESG metrics) into remuneration packages. This is starting to become common practice across Europe, but is also a trend in the US. We also have seen companies align their reporting practices on remuneration with SRD 2. But have remuneration practices really become any better?

> **'WE CONTINUE TO SEE COMPANIES THAT HAVE POORLY DESIGNED STOCK PLANS WHICH FAIL TO INCENTIVIZE EXECUTIVES TO FOCUS ON DELIVERING LONG-TERM, SUSTAINABLE PERFORMANCE.'**
>
> MICHIEL VAN ESCH

Pay for performance, sustainability and the Covid-19 effect

At the start of our engagement, many companies had most of their financial performance metrics already in place. Even though for many of them we would we prefer that companies evaluate on risk and return-based metrics (such as the return on invested capital) rather than pure profit measures, at least companies' performance indicators and targets are often clearly communicated.

However, during the pandemic many corporates decided to drop these targets as the world's economic circumstances were duly turned upside down. Some companies dropped annual bonuses altogether, but many continued to pay out their bonuses under the argument that the pandemic is an external circumstance that does not relate to company performance. This logic seemed dominant in conversations, particularly in the US. For those companies we focused our engagement on alignment with the shareholder experience. It is common for companies to attribute strong stock performance in economic booms to management and to blame external factors for poor performance during economic downturns.

The introduction of sustainability-related metrics often is a good thing and sometimes we encourage it. However, we have also noted that some companies use sustainability performance as a remuneration cushion. When financial performance was close to zero, sustainability metrics were all met, safeguarding executive pay-outs but without strong disclosure. During our conversations, we aimed to make sure that sustainability metrics are measurable, relevant to the strategy, and sufficiently ambitious.

One common aspect to look out for are targets around metrics on sustainable product portfolios. Many companies set targets to improve the percentage of sustainable revenues that could be attributed to their product pipelines. This could be a valid measure for those companies that have appropriate impact measurement methods in place. However, many companies just re-label more of their products as being sustainable without having much of an impact.

Focus on share-based performance

Equity-linked compensation is widely considered to be an effective means to align the interests of managers and shareholders, and yet this can only be achieved if the equity plan is adequately structured. We continue to see companies that have poorly designed stock plans which fail to incentivize executives to focus on delivering long-term, sustainable performance. For instance, some companies choose to grant their CEOs long-term incentive awards which are predominantly in the form of time-based equity. We consider it best practice for a majority of an executive's long-term incentive award to be in the form of equity vesting based on performance against pre-set quantifiable targets set over a multi-year period.

In addition, stock options with no performance conditions attached continue to represent a disproportionately large portion of many CEOs' pay packages. We view this as a concern. We favor the use of stock compensation as opposed to stock option compensation, as stock options have been shown to incentivize risk-taking behavior, given that they provide limited downside risk and significant upside potential.

Share ownership guidelines for executives are another important feature of an adequately designed compensation plan. These are meant to ensure that executives build and maintain a meaningful level of stock ownership throughout their tenure, thereby ensuring that manager and shareowner incentives are aligned. Hence, during our conversations, we continue to focus on ensuring that adequate ownership guidelines are in place for executives.

Pay ratios

When analyzing the size of the compensation paid to executive directors, we not only assess the absolute value of the remuneration package, but also how this compares to the company's wider workforce. Investors often use pay ratios to compare top and bottom salaries within an organization. The most popular ratio is the CEO pay ratio, which was introduced by the Dodd-Frank Wall Street Reform and Consumer Protection Act and is calculated by dividing the CEO's remuneration with the pay of the median employee.

Before the pandemic, it had already been established that these ratios were increasing. However, the disrupting characteristics of the pandemic have exacerbated global income inequality through issues such as lost income and rising inflation, both of which have a significantly higher impact on lower-income groups. As a result, and in the pursuit of reversing the increase in global income equality, we expect investors to pay increasingly more attention to the relative pay levels of company executives.

Structure and oversight

Remuneration oversight remains a focal point of our engagement. We focus on ensuring that the committee responsible for remuneration is sufficiently independent so as to provide objective decision-making in the interests of shareholders. In addition, we view it as best practice for companies to engage with shareholders to gain feedback on their pay practices and to thereby set up a process of improving remuneration practices on a continuous basis.

When there is significant dissent on remuneration-related voting items, we expect companies to initiate a dialogue with shareowners to identify what factors prompted the opposition, and to determine what changes to the pay policies and/or practices are needed. We also pay particular attention to whether companies provide clear and transparent disclosure with regards to any instances where discretionary adjustments to pay outcomes or structures are rolled out. Notably, we assess whether the body responsible for remuneration matters adequately discharged its oversight responsibilities by ensuring that an appropriate remuneration structure is in place.

CASE STUDY

TESCO

We have been engaging with UK retailer Tesco on executive remuneration since 2020, when the company's remuneration report was rejected by a majority of the votes cast at the AGM during that year. The company has rolled out meaningful improvements to its compensation plan since we initiated our dialogue. Most recently, Tesco revised its remuneration policy and included ESG metrics in the executive pay design while also simplifying the structure of its short-term incentive plan.

WOLTERS KLUWER

Wolters Kluwer has undergone significant changes over the last several years, having finalized their transition into a digital solutions company. To facilitate this transition, the company has had to adapt some of their corporate governance practices on executive remuneration. The CEO of Wolters Kluwer has historically received excessive payouts compared to local benchmarks and industry peers. This is in part due to retaining and attracting talent from markets with above average executive pay like the US, as well as incentivizing stability throughout the company's long-term transition. In response to continuous shareholder feedback on the excessive payouts, the company has reduced the maximum opportunity under the long-term incentive plan from 285% to 240% of base salary.

Proxy Voting

DIANA TRIF – *Engagement specialist*
LUCAS VAN BEEK – *Active ownership analyst*

Engagement specialist Diana Trif and active ownership analyst Lucas van Beek reflect on some of the recent trends in proxy voting, from the increased scrutiny among investors around companies' board elections to the recent legislative changes around submitting shareholder proposals in the US.

Increased scrutiny on Board Elections

Board elections, the process in which investors have the right to elect directors to the company's Board of Directors during shareholder meetings, have consistently been one of the fundamental aspects of corporate governance. Corporate boards are responsible for sufficient oversight and can act as a sounding board for management by providing insights and foresight on directors' relevant fields of expertise. Good corporate governance is defined by distinct responsibilities between executive and non-executive directors, with board committees delving into specific matters that require more time and resources. Global best practice requires corporate boards to have sufficient independence levels, both overall and within separate board committees, while safeguarding a relevant and diversified set of skills, expertise, and experience amongst directors to reflect all stakeholders' perspectives.

Historically, there has not been much scrutiny around the election of board directors. Especially not in the absence of a proxy contest or dedicated campaign to vote Against certain directors. Often investors went along with management's recommendations as the majority of board elections are considered routine items at companies' annual general meetings (AGMs). However, over the past years we have witnessed a rise in interest from the public as to how investors use their voting rights, which along with other trends resulted in increased scrutiny from shareholders regarding board elections. First of all, this means investors are increasingly demanding the possibility to hold individual directors accountable. This is for instance not possible in the case of a slate election method, where board directors are jointly put forward in one list (a slate). Secondly, investors continue to prefer the ability to re-elect directors on an annual basis, which is not the case when the election frequency is set to more than one year or when a board is staggered, meaning that only a rotating part of the board is eligible for (re-)election.

Besides investor preferences regarding the different election types and frequencies, director opposition by shareholders has increased over the past couple of years. The 2022 proxy voting report by Semler Brossy showed that the percentage of directors from Russel 3000 companies receiving less than 95% support rates from investors has increased from 22% five years ago to 30% in 2022. Insufficient board independence, gender diversity concerns or potential overcommitment, have been standard drivers of voting Against a director's election. However, nowadays shareholders use the election of board directors to signal discontent around broader topics like environmental and social concerns.

In 2020, Robeco introduced a policy to vote Against the nomination of the most accountable board member for companies in high carbon emitting sectors that do not sufficiently address the impact of climate change. This year, we introduced a similar policy related to human rights, identifying and voting Against the election of the most accountable board member for companies that face significant human rights issues and are linked to social controversies, while performing insufficient due diligence regarding their human rights impacts. Robeco has also been signaling its discontent regarding some companies' persistent unacceptable remuneration practices by voting Against the Chairs of their remuneration committee for multiple years now. Finally, we expect shareholders to carry on showing their increased scrutiny of corporate actions, by opposing relevant agenda items such as the re-election of a board member, and we aim to continuously broaden our policies both in terms of scope and themes.

Market developments in the United States

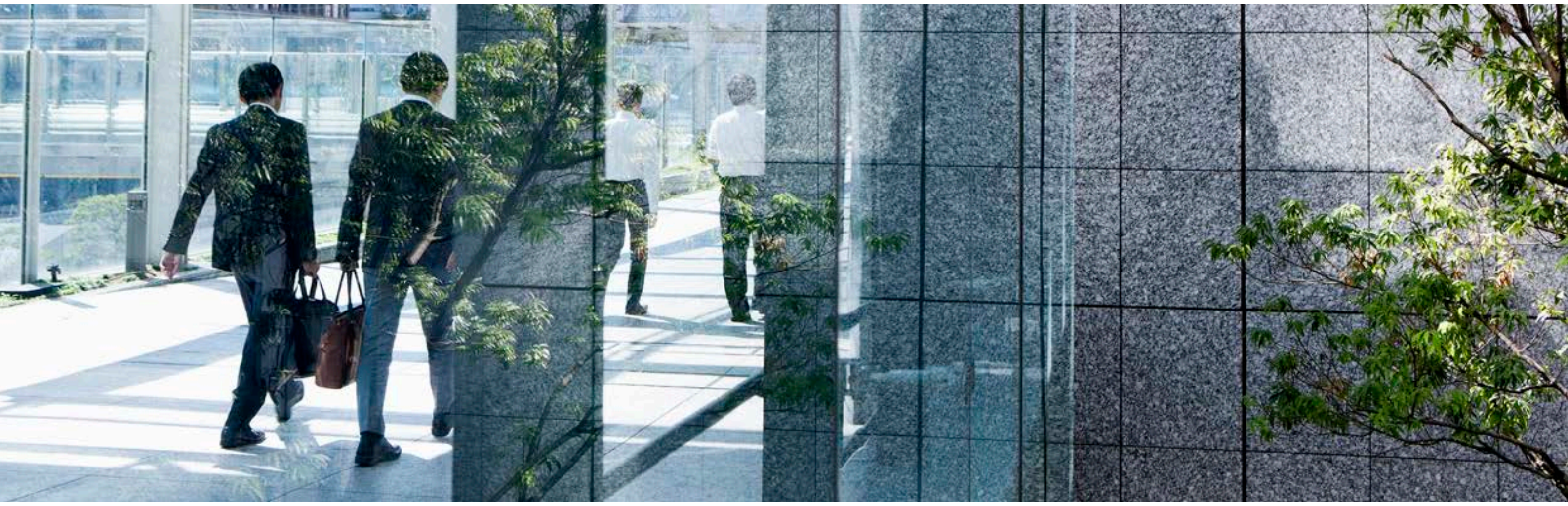
The US is often cited as a model of good governance characterized by a focus on shareholder rights and robust disclosure requirements. The US corporate governance model is, however, far from being a static system. In the past decades, it has undergone significant changes. These changes were spurred by the accounting scandals of the early 2000s and the 2008 financial crisis, which directed significant scrutiny towards public company boards and raised awareness regarding the far-reaching impacts of poor corporate governance. The Covid-19 pandemic, climate change, and the increase in global wealth and income inequality have again dramatically reshaped the corporate governance landscape. Investors have increased their expectations and are using their rights more than ever to hold companies accountable. Against this backdrop, regulators continued to roll out initiatives to reform the corporate governance system to adapt to these new realities.

One major change that was recently rolled out in the US was the Securities and Exchange Commission's (SEC) adoption of new rules requiring that all companies use 'universal proxy cards' for any meetings involving contested elections. The new rules, which apply to shareholder meetings after August 31, 2022, will overhaul the mechanisms by which proxy contests have been carried out in the US thus far. Prior to the amendments, shareholders voting by proxy were unable to 'mix and match' nominees put forward by the incumbent board and the dissident shareholder, as they could if voting in person. These shareholders were therefore faced with a binary choice – to vote either for one slate or the other, resulting in no or sweeping change. The new rules require both the incumbent board and the dissident shareholder to provide shareholders with a slate including the names of all dissident and registrant nominees, allowing shareholders voting by proxy to choose nominees from either side. We welcome this change as it places investors voting in person and by proxy on equal footing.

In a separate initiative, the SEC proposed certain amendments to Rule 14a-8, which governs the process by which shareholder proposals are included in a company's proxy statement. Under this rule, a company may omit a shareholder proposal from its proxy statement if the proposal falls within one of 13 substantive bases for exclusion. The proposed amendments focus in particular on the substantial implementation, duplication, and resubmission of proposals, aiming to "improve the shareholder proposal process and promote consistency." In recent years, the current rules drew criticism over concerns that the existing standards for exclusion were not consistently implemented, thereby leading to unpredictable outcomes. The new rules address these concerns by ensuring a more transparent framework for the rule's application. We support the changes and expressed our position by participating in the public consultation launched by the SEC on the new rules.

Another development we are closely following is the California Gender Board Diversity Law. In May 2022, the California law requiring increased female representation on public company boards headquartered in the state was struck down. The decision came weeks after a court invalidated a bill requiring California-based publicly listed corporations to have board members from underrepresented communities. This outcome prompted concerns that the rulings will stifle future efforts to enact diversity regulations in the US. Despite this, companies continue to face mounting pressure from shareholders to increase diversity in the boardroom. At the same time, the Nasdaq Board Diversity Rules, which became effective in August 2022, signal that the focus on diversity remains ongoing and that companies should continue striving to ensure an adequate level of board diversity.

COMPANIES UNDER ENGAGEMENT



Biodiversity
Archer Daniels Midland
Barry Callebaut AG
Bridgestone
Bunge Ltd.
Compagnie Generale des Etablissements Michelin SCA
JBS SA
Marfrig Foods SA
Mondelez International
Sappi Ltd.
Suzano Papel e Celulose SA
The Hershey Corporation
Top Glove Corp. Bhd.

Climate Transition of Financial Institutions
Australia & New Zealand Banking Group Ltd.
Bank of America Corp.
Barclays Plc
BNP Paribas SA
Citigroup, Inc.
DBS Group Holdings
HSBC
ING Groep NV
Sumitomo Mitsui Financial Group, Inc.

Lifecycle Management of Mining
Anglo American
Barrick Gold Corp.
BHP Billiton
First Quantum Minerals Ltd.
Fortescue Metals Group Ltd.
Gerdau SA
Polymetal International Plc
Polyus Gold OAO
Sibanye Stillwater Ltd.

Natural Resource Management
Callon Petroleum Co.
CF Industries Holdings, Inc.
Continental Resources, Inc.
OCI NV
Sappi Ltd.
Tronox Holdings Plc

Net Zero Carbon Emissions
Anglo American
ArcelorMittal
Berkshire Hathaway
BHP Billiton
BlueScope Steel Ltd.
BP
CEZ as
Chevron
China National Building Material Co. Ltd.
CRH Plc
Ecopetrol SA
Enel
ExxonMobil
Gazprom OAO
HeidelbergCement AG
Hyundai Motor
JFE Holdings, Inc.
LyondellBasell Industries NV
Marathon Petroleum Corp.
Petroleo Brasileiro
Phillips 66
PTT Exploration & Production
Rio Tinto
Royal Dutch Shell
Saudi Arabian Oil Co.
Valero Energy Corp.
Vistra Energy Corp.
WEC Energy Group Inc

Sound Environmental Management
Guangdong Investment Ltd.

Digital Innovation in Healthcare
Elevance Health Inc

Diversity and Inclusion
Eli Lilly & Co.
Netflix Inc
Oracle Corp
Taiwan Semiconductor Manufacturing Co. Ltd.
Thermo Fisher Scientific, Inc.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas
Bharat Electronics Ltd.
Booking Holdings, Inc.
Cemex SAB de CV
Fast Retailing
HeidelbergCement AG
Inditex
PTT Exploration & Production

Sinotruk Hong Kong Ltd.
SolarEdge Technologies, Inc.
Wacker Chemie AG

Labor Practices in a Post Covid-19 World

Accor SA
Delivery Hero AG
InterContinental Hotels Group Plc
Marriott International, Inc.
Meituan Dianping
Uber Technologies, Inc.
Wal-Mart Stores

Social Impact of Artificial Intelligence

Accenture Plc
Booking Holdings, Inc.
Visa, Inc.

Social Impact of Gaming

Activision Blizzard, Inc.
NCsoft Corp.
NetEase.com, Inc.
Take-Two Interactive Software, Inc.
Tencent Holdings Ltd.

Sound Social Management

Bayerische Motoren Werke
Glencore Plc
McKesson Corp.
MTN Group
Sociedad Quimica y Minera
Tesco Plc

Corporate Governance in Emerging Markets

Companhia de Concessoes Rodoviarias SA
CPFL Energia SA
Haier Smart Home Co., Ltd.
Samsung Electronics
Woongjin Coway Co. Ltd.
XinAo Gas Holdings Ltd.

Corporate Governance Standards in Asia

Hynix Semiconductor, Inc.
INPEX Corp.
Mando Corp.
OMRON Corp.
ROHM Co. Ltd.
Shin-Etsu Chemical Co. Ltd.

Good Governance

Arcadis NV
DSM
Heineken Holding
Royal Dutch Shell
Unilever

Responsible Executive Remuneration

Booking Holdings, Inc.
Deutsche Boerse
Henkel AG & Co. KGaA
Linde Plc
NIKE
Schneider Electric SA
STMicroelectronics NV
Tesco Plc
Walt Disney
Wolters Kluwer

SDG Engagement

Adobe Systems, Inc.
Alphabet, Inc.
Amazon.com, Inc.
Apple
Banco BTG Pactual S.A.
Capital One Financial Corp.
CB Richard Ellis Group, Inc.
Companhia de Concessoes Rodoviarias SA
Deutsche Boerse
eBay
Elanco Animal Health, Inc.
Electronic Arts, Inc.
Elevance Health Inc
F5 Networks, Inc.
Jeronimo Martins
JPMorgan Chase & Co., Inc.
L Oréal
Meta Platforms Inc
Mr. Price Group Ltd.
NASDAQ OMX Group, Inc.
Neste Oil Oyj
Novartis
OTP Bank Nyrt
Rio Tinto
Salesforce.com, Inc.
SalMar ASA
Samsung Electronics
Sandvik AB
Sony
STMicroelectronics NV
Total
Union Pacific
United Parcel Service, Inc.
Volvo Group

Acceleration to Paris

Anhui Conch Cement Co. Ltd.
Caterpillar, Inc.
China Petroleum & Chemical
Formosa Plastics Corp.
ITOCHU Corp.
Lukoil Holdings OAO
Marubeni Corp.
Mitsubishi
Nippon Steel & Sumitomo Metal Corp.
PetroChina
POSCO
Rosneft NK OAO
Sumitomo Corp.

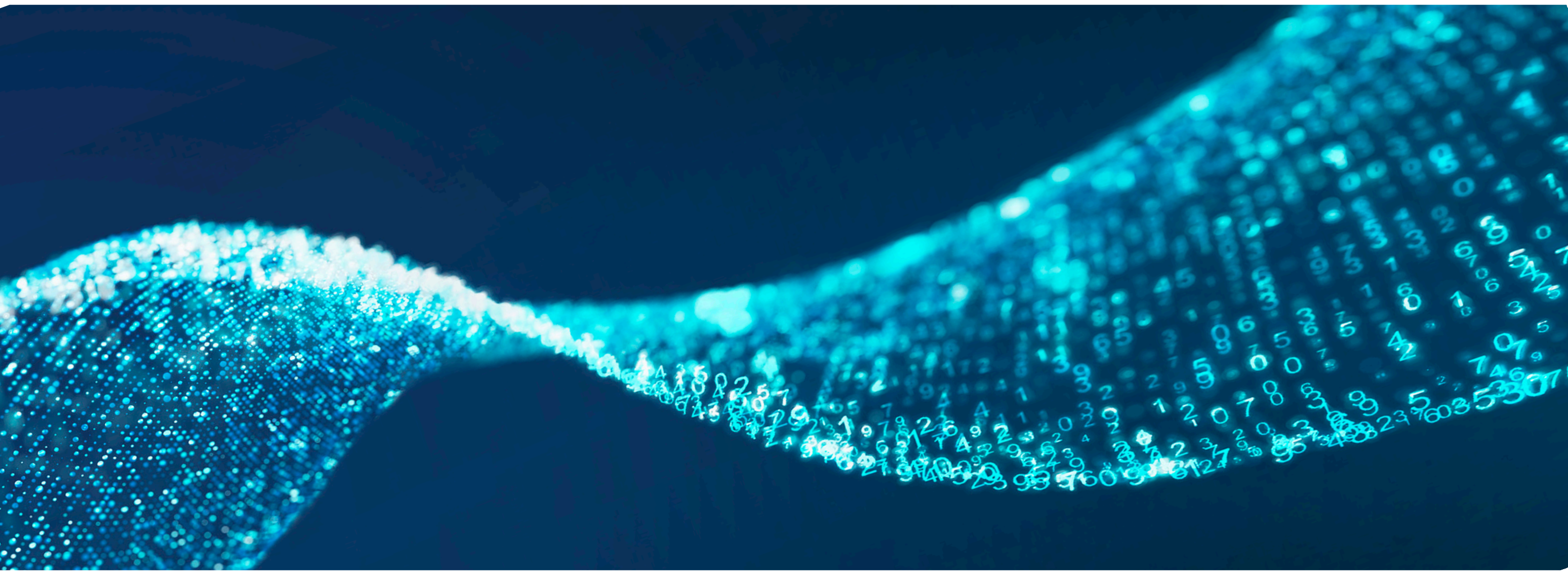
Palm Oil

MP Evans Group PLC
REA Holdings PLC
Wilmar International

Global Controversy Engagement

Currently, 11 companies are under engagement based on potential breaches of the UN Global Compact and/or the OECD Guidelines for Multinational Enterprises.

CODES OF CONDUCTS



Robeco's Engagement Policy

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information is available at: https://www.robeco.com/docm/docu-robeco-engagement-policy.pdf

The UN Global Compact

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at: https://www.unglobalcompact.org/

CODES OF CONDUCTS

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at: http://mneguidelines.oecd.org/

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on
- Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices. In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO_2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The Active Ownership team is part of Robeco's Sustainable Investing Center of Expertise headed by Carola van Lamoen. The SI Center of Expertise combines our knowledge and experience on sustainability within the investment domain and drives SI leadership by delivering SI expertise and insights to our clients, our investment teams, the company and the broader market. Furthermore, the Active Ownership team gains input from investment professionals based in local offices of the Robeco around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities. ■

ROBECO

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

More information can be found at: https://www.robeco.com

IMPORTANT INFORMATION

ROBECO
The Investment Engineers

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The Netherlands

T +31 10 224 1 224
I www.robeco.com

1318_WWP-10'22

Wales Pension Partnership
GLOBAL OPPS EQUITY FUND

ROBECO
The Investment Engineers

Proxy Voting Report

Period: July 01, 2022 - September 30, 2022

Votes Cast	505	Number of meetings	51
For	443	With management	403
Withhold	8	Against management	102
Abstain	7		
Against	45		
Other	2		
Total	**505**	**Total**	**505**

In 28 (55%) out of 51 meetings we have cast one or more votes against management recommendation.

General Highlights

Increased scrutiny on Board Elections

Board elections, the process in which investors have the right to elect directors to the company's Board of Directors during shareholder meetings, have consistently been one of the fundamental aspects of corporate governance. Corporate boards are responsible for sufficient oversight and can act as a sounding board for management by providing insights and foresight on directors' relevant fields of expertise. Good corporate governance is defined by distinct responsibilities between executive and non-executive directors, with board committees delving into specific matters that require more time and resources. Global best practice requires corporate boards to have sufficient independence levels, both overall and within separate board committees, while safeguarding a relevant and diversified set of skills, expertise, and experience amongst directors to reflect all stakeholders' perspectives.

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Market Highlights

Market developments in the United States

The US is often cited as a model of good governance characterized by a focus on shareholder rights and robust disclosure requirements. The US corporate governance model is, however, far from being a static system. In the past decades, it has undergone significant changes. These changes were spurred by the accounting scandals of the early 2000s and the 2008 financial crisis, which directed significant scrutiny towards public company boards and raised awareness regarding the far-reaching impacts of poor corporate governance. The Covid-19 pandemic, climate change, and the increase in global wealth and income inequality have again dramatically reshaped the corporate governance landscape. Investors have increased their expectations and are using their rights more than ever to hold companies accountable. Against this backdrop, regulators continued to roll out initiatives to reform the corporate governance system to adapt to these new realities.

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Voting Highlights

Tesla Inc - 08/04/2022 - United States
Proposals: Election of Directors, Proposal Regarding Supermajority Requirement, Shareholder Proposals on Proxy Access and Reporting on Anti-harassment and Discrimination Efforts

Tesla, Inc. is a US multinational company that designs, develops, manufactures, leases, and sells electric vehicles, and energy generation and storage systems in the United States, China, and internationally.

The company's 2022 annual general meeting (AGM) featured important resolutions regarding the company's governance practices and social controversies. In 2021, a shareholder proposal to declassify the board received majority support, but the company failed to provide a meaningful response to the vote. For this reason, we voted Against the re-election of the two nominating and corporate governance committee members subject to vote. A substantial proportion of shareholders followed suit, which resulted in 31% and 36% of votes Against these directors.

Another important management proposal featured in the AGM was the elimination of the supermajority vote requirement, which stipulates that at least two-thirds of the Company's outstanding common stock are required to amend certain provisions. We supported this proposal. However, even though it received 97% of the votes For, the resolution was not approved because the total number of votes cast in favor did not amount to at least two-thirds of the total outstanding shares of Tesla's common stock, and therefore did not meet the supermajority requirement. This was also the case for a proposal to reduce director terms, which received 99% of the votes For.

Several management-opposed shareholder proposals received high support rates, especially one regarding the adoption of proxy access. This proposal sought to grant an unlimited group of shareholders owning at least 3% of the outstanding shares continuously for at least 3 years the right to place nominees on the company's AGM agenda. We believe that shareholders should be able to nominate directors that faithfully represent their interests. As such, we supported this proposal, which was ultimately approved, having received 51% shareholder support. Another noteworthy shareholder proposal was related to annual reporting on anti-harassment and discrimination efforts. Tesla is facing multiple lawsuits alleging discrimination and anti-union tactics, and this proposal stems from the overwhelmingly negative media coverage surrounding these allegations. We supported this proposal as we believe that shareholders would benefit from enhanced disclosure on this topic. Overall, the proposal received significant support, 46.5% of votes For, but was not approved.

Petroleo Brasileiro S.A. Petrobras - 08/19/2022 - United States
Proposals: Election of Directors

Petróleo Brasileiro S.A. - Petrobras explores for, produces, and sells oil and gas in Brazil and internationally.

Petrobras already held its Annual General Meeting (AGM) back in April, where eight directors, including the CEO, were elected to the company's Board of Directors. However, the largest shareholder, the federal government of Brazil, announced through a letter its intent to dismiss the CEO from his role and appoint a replacement. As a result, and at the request of the largest shareholder, the company convened an Extraordinary General Meeting (EGM) to elect a new Board of Directors on August 19th.

The initial list presented by the Brazilian government for the EGM included eight nominees. However, the company's Eligibility Committee excluded two directors form the ballot due to compliance concerns as both proposed directors hold high-ranking positions within the Brazilian government. Apart from the list presented by the Brazilian government, two nominees were presented by minority shareholders.

Due to the nature of the proxy voting mechanisms in the Brazilian market (more information can be found in this year's Q1 market highlight), we decided to concentrate all our votes around the directors presented by minority shareholders as we expected the Brazilian government to still present the two rejected candidates during the EGM itself.

Ultimately, from the list of eight candidates submitted by the federal government, six were elected, including the new proposed Chairman and the two candidates that were rejected by the Eligibility Committee. As expected, these were brought forward by the largest shareholder during the EGM. However, by focusing our votes on the candidates presented by minority shareholders, we have been able to contribute to their elections.

Alibaba Group Holding Ltd - 09/30/2022 - Cayman Islands
Proposal: Board elections

Alibaba Group Holding Limited, through its subsidiaries, provides technology infrastructure and marketing reach to merchants, brands, retailers, and other businesses to engage with their users and customers in the People's Republic of China and internationally.

At the company's annual general meeting (AGM), the focus was on the election of directors. As in previous years, the Alibaba Partnership, a formal partnership agreement that was initiated by the founders of the Group in 2010, has the exclusive right to nominate or, in limited situations, appoint up to a simple majority of the members of the company's board. Currently, 4 out of the 11 directors on the board are appointed by the Partnership. The Partnership's nomination right is not fully exercised since its nominees do not currently comprise a majority of the board.

We decided to oppose the re-election of the more respective accountable member of the nomination committee, as the board fails to incorporate the appropriate level of gender diversity. Compared to previous years, we acknowledge that there have been positive developments regarding the company's corporate governance structure, including an increase in the board's overall independence and a now 100% independent compensation committee.

However, we expect these improvements to continue, considering the company's anticipated primary listing on the Hong Kong Stock

Exchange. In preparation for this listing, the company will adopt an Employee Stock Ownership Plan (ESOP) to comply with the amended Chapter 17 of the Hong Kong Listing Rules, which will be subject to shareholders' approval at an upcoming EGM. We provided input to the company to help them identify the material issues they should consider when they design their new ESOP.

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Wales Pension Partnership
Emerging Markets Fund

ROBECO
The Investment Engineers

Proxy Voting Report

Period: July 01, 2022 - September 30, 2022

Votes Cast	**728**	**Number of meetings**	**88**
For	646	With management	630
Withhold	6	Against management	98
Abstain	1		
Against	75		
Other	0		
Total	**728**	**Total**	**728**

In 34 (39%) out of 88 meetings we have cast one or more votes against management recommendation.

General Highlights

Increased scrutiny on Board Elections
Board elections, the process in which investors have the right to elect directors to the company's Board of Directors during shareholder meetings, have consistently been one of the fundamental aspects of corporate governance. Corporate boards are responsible for sufficient oversight and can act as a sounding board for management by providing insights and foresight on directors' relevant fields of expertise. Good corporate governance is defined by distinct responsibilities between executive and non-executive directors, with board committees delving into specific matters that require more time and resources. Global best practice requires corporate boards to have sufficient independence levels, both overall and within separate board committees, while safeguarding a relevant and diversified set of skills, expertise, and experience amongst directors to reflect all stakeholders' perspectives.

Historically, there has not been much scrutiny around the election of board directors. Especially not in the absence of a proxy contest or dedicated campaign to vote Against certain directors. Often investors went along with management's recommendations as the majority of board elections are considered routine items at companies' annual general meetings (AGMs). However, over the past years we have witnessed a rise in interest from the public as to how investors use their voting rights, which along with other trends resulted in increased scrutiny from shareholders regarding board elections. First of all, this means investors are increasingly demanding the possibility to hold individual directors accountable. This is for instance not possible in the case of a slate election method, where board directors are jointly put forward in one list (a slate). Secondly, investors continue to prefer the ability to re-elect directors on an annual basis, which is not the case when the election frequency is set to more than one year or when a board is staggered, meaning that only a rotating part of the board is eligible for (re-)election.

Besides investor preferences regarding the different election types and frequencies, director opposition by shareholders has increased over the past couple of years. The 2022 proxy voting report by Semler Brossy showed that the percentage of directors from Russel 3000 companies receiving less than 95% support rates from investors has increased from 22% five years ago to 30% in 2022. Insufficient board independence, gender diversity concerns or potential overcommitment, have been standard drivers of voting Against a director's election. However, nowadays shareholders use the election of board directors to signal discontent around broader topics like environmental and social concerns.

In 2020, Robeco introduced a policy to vote Against the nomination of the most accountable board member for companies in high carbon emitting sectors that do not sufficiently address the impact of climate change. This year, we introduced a similar policy related to human rights, identifying and voting Against the election of the most accountable board member for companies that face significant human rights issues and are linked to social controversies, while performing insufficient due diligence regarding their human rights impacts. Robeco has also been signaling its discontent regarding some companies' persistent unacceptable remuneration practices by voting Against the Chairs of their remuneration committee for multiple years now. Finally, we expect shareholders to carry on showing their increased scrutiny of corporate actions, by opposing relevant agenda items such as the re-election of a board member, and we aim to continuously broaden our policies both in terms of scope and themes.

Market Highlights

Market developments in the United States

The US is often cited as a model of good governance characterized by a focus on shareholder rights and robust disclosure requirements. The US corporate governance model is, however, far from being a static system. In the past decades, it has undergone significant changes. These changes were spurred by the accounting scandals of the early 2000s and the 2008 financial crisis, which directed significant scrutiny towards public company boards and raised awareness regarding the far-reaching impacts of poor corporate governance. The Covid-19 pandemic, climate change, and the increase in global wealth and income inequality have again dramatically reshaped the corporate governance landscape. Investors have increased their expectations and are using their rights more than ever to hold companies accountable. Against this backdrop, regulators continued to roll out initiatives to reform the corporate governance system to adapt to these new realities.

One major change that was recently rolled out in the US was the Securities and Exchange Commission's (SEC) adoption of new rules requiring that all companies use 'universal proxy cards' for any meetings involving contested elections. The new rules, which apply to shareholder meetings after August 31, 2022, will overhaul the mechanisms by which proxy contests have been carried out in the US thus far. Prior to the amendments, shareholders voting by proxy were unable to 'mix and match' nominees put forward by the incumbent board and the dissident shareholder, as they could if voting in person. These shareholders were therefore faced with a binary choice – to vote either for one slate or the other, resulting in no or sweeping change. The new rules require both the incumbent board and the dissident shareholder to provide shareholders with a slate including the names of all dissident and registrant nominees, allowing shareholders voting by proxy to choose nominees from either side. We welcome this change as it places investors voting in person and by proxy on equal footing.

In a separate initiative, the SEC proposed certain amendments to Rule 14a-8, which governs the process by which shareholder proposals are included in a company's proxy statement. Under this rule, a company may omit a shareholder proposal from its proxy statement if the proposal falls within one of 13 substantive bases for exclusion. The proposed amendments focus in particular on the substantial implementation, duplication, and resubmission of proposals, aiming to "improve the shareholder proposal process and promote consistency." In recent years, the current rules drew criticism over concerns that the existing standards for exclusion were not consistently implemented, thereby leading to unpredictable outcomes. The new rules address these concerns by ensuring a more transparent framework for the rule's application. We support the changes and expressed our position by participating in the public consultation launched by the SEC on the new rules.

Another development we are closely following is the California Gender Board Diversity Law. In May 2022, the California law requiring increased female representation on public company boards headquartered in the state was struck down. The decision came weeks after a court invalidated a bill requiring California-based publicly listed corporations to have board members from underrepresented communities. This outcome prompted concerns that the rulings will stifle future efforts to enact diversity regulations in the US. Despite this, companies continue to face mounting pressure from shareholders to increase diversity in the boardroom. At the same time, the Nasdaq Board Diversity Rules, which became effective in August 2022, signal that the focus on diversity remains ongoing and that companies should continue striving to ensure an adequate level of board diversity.

Voting Highlights

Petroleo Brasileiro S.A. Petrobras - 08/19/2022 - United States
Proposals: Election of Directors

Petróleo Brasileiro S.A. - Petrobras explores for, produces, and sells oil and gas in Brazil and internationally.

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Ultimately, from the list of eight candidates submitted by the federal government, six were elected, including the new proposed Chairman and the two candidates that were rejected by the Eligibility Committee. As expected, these were brought forward by the largest shareholder during the EGM. However, by focusing our votes on the candidates presented by minority shareholders, we have been able to contribute to their elections.

Prosus NV - 08/24/2022 - Netherlands
Proposals: Remuneration Report, Remuneration Policy Executive and Non-Executive Directors & Authority to Repurchase Shares.

Prosus N.V. engages in the e-commerce and internet businesses. It operates internet platforms, such as classifieds, payments and fintech, food delivery, travel, education, retail, health, social, and other internet platforms.

The company's 2022 Annual General Meeting (AGM) occurred amidst high scrutiny over the continued rise in Prosus' valuation discount. In this context, three resolutions were particularly noteworthy.

First, Prosus asked shareholders to approve a share buyback authority enabling the board to repurchase shares representing up to 50% of the issued share capital over a period of 18 months. We voted For the resolution, having assessed that the proposed buyback is an effective means to address Prosus' steep valuation discount. The proposal was supported by an overwhelming majority (ca. 93%).

Second, Prosus asked for approval on certain changes to the remuneration policy aimed at incentivizing the executive team to focus on reducing the discount to NAV. Specifically, the company proposed to not award any LTI for FY2023 and to instead issue a special discount-linked STI, to be earned based on whether a "material reduction" of the discount to NAV is achieved by the end of FY2023. Per the company's disclosure, the board retains full discretion to assess the materiality of the reduction. We voted Against the resolution based on our concerns that the proposed changes place excessive focus on short-term performance and that the proposed plan lacks sufficient transparency. The resolution was approved with 12% dissent.

Finally, we voted Against Prosus' remuneration report, which was opposed by 14% of the votes cast. In line with our voting policy, we assessed this report based on our proprietary remuneration framework and identified concerns with regards to pay magnitude and transparency.

Alibaba Group Holding Ltd - 09/30/2022 - Cayman Islands
Proposal: Board elections

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However, we expect these improvements to continue, considering the company's anticipated primary listing on the Hong Kong Stock Exchange. In preparation for this listing, the company will adopt an Employee Stock Ownership Plan (ESOP) to comply with the amended Chapter 17 of the Hong Kong Listing Rules, which will be subject to shareholders' approval at an upcoming EGM. We provided input to the company to help them identify the material issues they should consider when they design their new ESOP.

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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.17.1	Rebalancing and cash management	HCPF (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Head of the Clwyd Pension Fund who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

In the period July to September 2022 there were no movements between assets. After the period given market movements after the mini budget in October 2022, the decision was made to transition assets between certain asset classes. This resulted in the following movements:

October 2022	Redeem £125m BlackRock ESG Equity Fund Invest £120m Insight Cash & Risk Management Framework (Residual cash to Clwyd bank account)
November 2022	Redeem £90m Russell Emerging Market Equity Fund Invest £90m Insight Cash & Risk Management Framework

Cash Management

Background

The Deputy Head of the Clwyd Pension Fund forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored quarterly and revised on an annual basis. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 30th September 2022 was £85.6m (£88.3m at 30th June 2022). Private Market drawdowns exceeded distributions by £1.6m during the quarter. The overall cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. Work is continuing with the Consultant and Actuary to monitor the cash-flow situation and be aware of any unforeseen issues. Monthly cash flows for the financial year 2022/23 are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
1.17.2	Short term tactical decisions relating to the 'best ideas' portfolio	HCPF (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the ‘Best Ideas’ portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund. The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

Action Taken

Since the previous report to Committee in August 2022 the transactions agreed within the portfolio were:

- Full Redemption of Blackrock Emerging Market Equity Fund- £31.3m (crystallised -5.9%)
- Full Redemption of LGIM Global REIT Fund- £20.4m (crystallised -7.7%)
- Invest £51.7m in LGIM Sterling Liquidity Fund
- Divest £50.0m of LGIM Sterling Liquidity Fund
- Invest £50m in Insight Short Dated Buy and Maintain Bond Fund

The current allocations within the portfolio following the transactions are:

- US Equities (1.6%)
- Commodities (1.8%)
- Infrastructure (1.5%)
- UK Equity (0.6%)
- Liquidity Fund (5.5%)

As at the end of September 2022, the Best Ideas portfolio 1 year performance was +4.3% against a target of +13.4% and the 3 year performance was +5.9% against a target of +7.6%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.17.3	Investment into new mandates / emerging opportunities	HCPF and either the CFM or CE (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's current investment strategy includes a 27% asset allocation to private equity (8%), property (4%), infrastructure (including legacy timber and agriculture assets) (8%), private debt (3%) and impact / local investing (4%) These are higher risk investments, usually in limited partnerships, and as such, previously, these are smaller commitments in the range of £8m to £20m in each. Across these asset categories there are currently in excess of 65 investment managers, investing in 120+ limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and Consultant meet at least quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG), sustainability and impact aspects on the investments made.

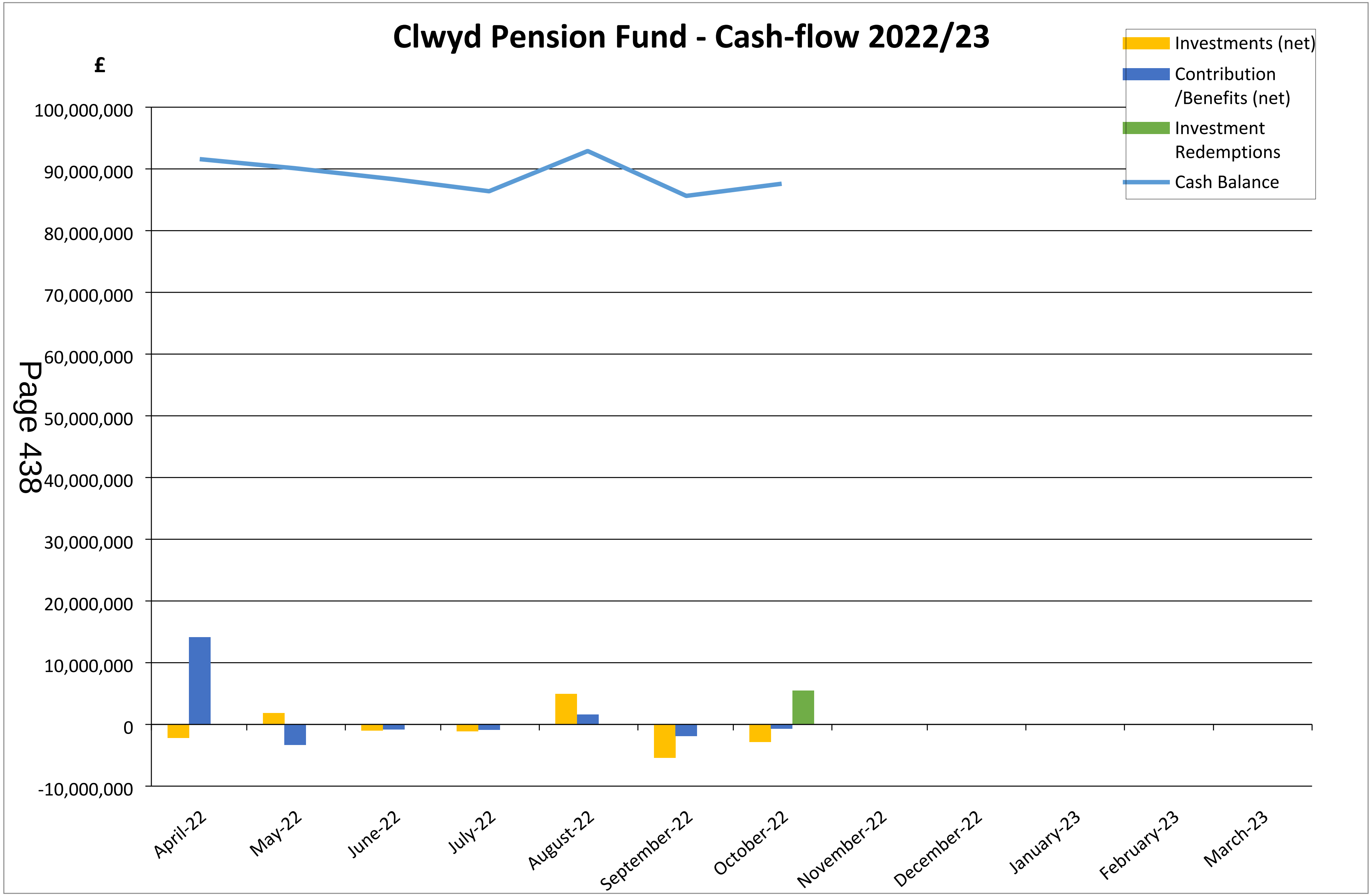
A review has been being undertaken of the existing portfolio and future cash flows by the Consultants and the results determined the forward work plan. It is anticipated that when the Wales Pension Partnership (WPP) are able to accommodate commitments in these alternative areas, the Fund will commit any available monies through the WPP. The Fund Consultants and WPP will work closely to ensure the available sub funds are suitable for the Funds existing Private Market strategy. Until these asset classes are available through the WPP, the Fund will continue to work with Mercer recommendations to deploy capital and look for any opportunities which fulfil the current agreed strategy.

Action Taken

Due diligence continues to be completed by Mercer on several managers across several of the asset classes and recommendations made. Two further commitments have been agreed as detailed below and in 1.13 of the main report.

Private Equity

- Activate Capital II $13m (£11m)
- ECI 12 £20m


Clwyd Pension Fund - Cash-flow 2022/23
£
Investments (net)
Contribution /Benefits (net)
Investment Redemptions
Cash Balance
100,000,000
90,000,000
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
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April-22
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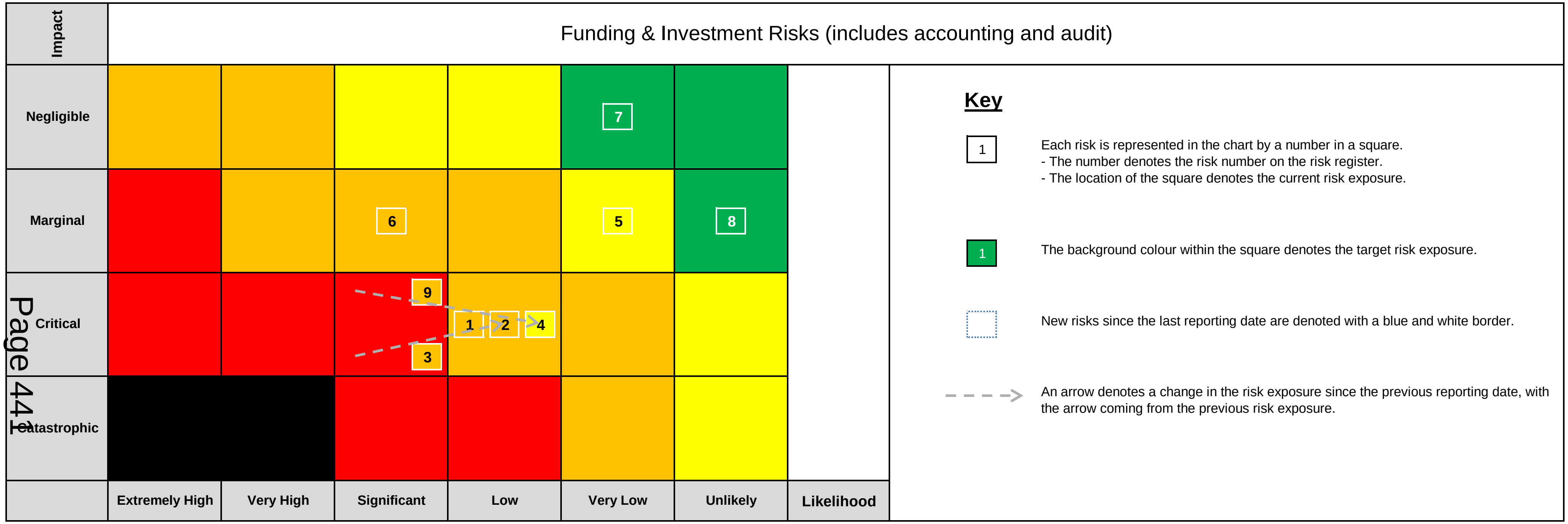
Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



15 November 2022

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (06/2021) and Investment Strategy Statement (03/2022):

F1 Achieve and maintain assets equal to 100% of liabilities within the 13 year average timeframe whilst remaining within reasonable risk parameters
F2 Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.
F8 Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
I1 Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
I2 Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable longterm costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process and as part of the ongoing risk management framework.	Critical	Very Low		😐 Current likelihood 1 too high	07/05/2020	Mar 2023	1 - Discussions with Employers to assess affordability as part of Triennial Actuarial Valuation (DF)	Head of CPF	31/01/2023	15/11/2022
2	Funding level reduces, increasing deficit / reducing surplus	Movements in assets and/or liabilities (as described in 3,4,5) in combination, which leads to a reduction in funding level and increased contribution requirements in particular	F1 / F2 / F3 / F4 / F5 / F7	Critical	Low		See points within points 3,4 and 5	Marginal	Low		😐 Current impact 1 too high	31/03/2016	Mar 2023	1 - Equity Protection Strategy to be reviewed regularly (DF) 2 – In conjunction with Risks 3, 4 and 5 – overall return outlook will be considered as part of the investment strategy review (PL) - See points within points 3, 4 and 5	Head of CPF	31/01/2023	15/11/2022
3	Investment targets are not achieved therefore materially reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented. - Black swan event e.g. global pandemic such as Covid-19 - Wales Pension Partnership (WPP) does not provide CPF with portfolios to deliver the Investment Strategy - Internal team do not have sufficient knowledge in order to challenge the investment managers on the advice given or understand the implications of all investment choices issues on the fund	F1 / F2 / F3 / F4 / F7	Critical	Significant		1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring at Investment Day, FRMG and TAAG meetings 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available 7 - Consideration and understanding of potential Brexit implications on inflation. 8 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions. 9 - Officers work closely with the WPP to ensure that CPF has the ability to pool its assets in an efficient and effective manner.	Critical	Low		😐 Current likelihood 1 too high	02/08/2022	Mar 2023	1 - Consider Inflation resilliency of the investment portfolio as part of the investment strategy review(DF)	Dep. Head of CPF	31/01/2023	15/11/2022
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low		1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee. 5 - Consideration and understanding of potential Brexit implications. 6 – Consideration and understanding of potential Covid–19 implications. 7 -The level of hedging was increased over September as yield triggers were hit, the level of hedging continues to be monitored and reported.	Marginal	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	31/03/2016	Mar 2023	1 - Consider as part of Triennial Actuarial Valuation (DF)	Dep. Head of CPF	31/01/2023	15/11/2022
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low		☺			1 - Consider as part of Triennial Actuarial Valuation (DF)	Dep. Head of CPF	31/01/2023	15/11/2022
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), 2022 consultation and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7/I1	Marginal	Significant		1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Participation in National consultations and lobbying 5 - Potential legislative agenda for ambitious net zero is an ongoing point of focus 6 - Continue with the monitoring of Link via the Host authority in terms of performance and ability to continue to provide polling services 7 - Fund policies updated to reflect latest flexibility Regulations on contribution rate reviews and deferred debt arrangements	Marginal	Low		😐 Current likelihood 1 too high	31/03/2016	Mar 2023	1 - Ensure that the Host Authority is monitoring the WPP operator contract (PL) 2 - Respond to Government consultations on investments when released (DF)	Dep. Head of CPF	31/01/2023	15/11/2022
7	Insufficient cash or liquid assets to pay benefits	- Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. - Further risk presented with the introduction of exit credits for exiting employers in the 2018 Regulations update. - Private Markets distributions could dry up due to liquidity in markets.	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring (including private markets) to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding sufficient liquid assets as part of agreed cashflow management policy 4 - Monitor cashflow requirements to ensure that they have enough liquid assets to pay the benefits when needed 5 - Cash management policy is documented to help monitor and manage cashflow issues 6 - Employers have been informed to notify Fund of any significant restructuring exercises. 7 - Employers have been informed to notify Fund of potential contract end dates (incl. changes) in sufficient time to reduce risk of large payments (i.e. through a contribution rate review in advance of the contract end date)	Negligible	Very Low		☺			1 - Ongoing monitoring of cashflow and collateral in the context of new valuation contributions (DF)	Dep. Head of CPF	31/01/2023	15/11/2022
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Unlikely		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		☺			1 - Update analysis as part of the Triennial Actuarial Valuation (DF)	Dep. Head of CPF	31/01/2023	15/11/2022
9	The Fund's Long term Investment Strategy fails to deliver on its ambition and objectives as a Responsible Investor.	1. Responsible Investment (including Climate Change) is not properly considered within the Fund's long-term Investment Strategy meaning it is not sustainable and does not address all areas of being a Responsible Investor 2. WPP does not provide CPF with the tools to enable implementation of RI policies	F1, F4, F8, I1, I2	Critical	Significant		1. Fund has in place Responsible Investment (RI) Strategy 2. RI Policy has 5 Strategic RI Priorities 3. WPP has RI policy in place 4. Fund has adopted a 2045 Net Zero ambition for its Investment Strategy.	Critical	Low		😐 Current likelihood 1 too high	03/02/2020	Mar 2023	1 - Implement Strategic RI Priorities (including TCFD), including ongoing analysis of the Fund's carbon Footprint. Identify sustainable investment opportunities and improve disclosure and reporting 2 - Work with WPP to ensure the Fund is able to implement effectively via the Pool	Dep. Head of CPF	31/01/2023	15/11/2022

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 23rd November 2022
Report Subject	Governance Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

An update on LGPS governance matters and the impact on the Clwyd Pension Fund (CPF) are provided for discussion at each Committee agenda, including updates on the Clwyd Pension Fund's governance strategy and policies. This update report includes developments since the last update report provided at the August 2022 Committee meeting.

This update includes matters that are mainly for noting, albeit comments are clearly welcome. There is one area for approval which relates to the updating of the Fund's Governance Policy and Compliance Statement. The Committee are asked to approve the changes which, in the main, relate to the changes to the Constitution and Pension Board Protocol as a result of the departure of the last Chief Executive.

The report includes updates on:

- Fund officers success at the Women in Pensions Awards
- Progress against the governance section of the Business Plan
- The extension of Mrs Williams' appointment on the Pension Board
- Recent topical developments
- Changes to the governance risks on the Fund's risk register since the last meeting
- The latest changes to our breaches of the law register
- Forthcoming training and events, some of which are essential for Members.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee note the changes to timescales in the business plan for items G3 and G5, due to Government delays in taking forward The Pension Regulator's Single Code and the SAB Good Governance review outcomes.
3	That the Committee approve the changes to the Fund's Governance Policy and Compliance Statement as shown in Appendix 3.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	**Business Plan Update** Appendix 1 summarises progress with the work for the governance tasks in the 2022/23 Business Plan. Good progress is being made with most actions. The Committee should note the following: • *G1 – Induction Training* All of the induction training sessions have now been provided for the new members who joined the Committee following the May local authority elections. Not all members were able to attend all the sessions and we are waiting confirmation that they have now watched all the recordings of the missed training sessions. • *G2 – Develop business continuity arrangements including managing cyber risk* The development of a draft Fund specific business continuity plan is now being undertaken based on the current practices that were identified by the Deputy Head of Clwyd Pension Fund and Pensions Administration Officer. This specific element of the business plan is running slightly behind schedule due to other priorities but it is hoped this will be finalised by the end of the year and an update will be provided at the February committee. A separate report is provided to update the Committee on progress in relation to cyber security. • *G3 – Review against TPR new Single Code* The Pension Regulator's new Single Code has still not been laid before Parliament. Work for the Fund was originally due to start in Q1 of this year but it may now be Q4, in which case work is likely to continue into 2023/24. The timescales in the business plan have been updated accordingly. • *G4 – Review appointment of Local Pension Board and Pension Fund Committee Members* The appointments of two members of the Pension Board were due to end or be reviewed this year. As was reported earlier in the year, the trade union scheme representative has already been reappointed to the Board. The review of the appointment of the non-trade union member representative is now also complete and is covered in the next section of this report. . • *G5 – Outcome of Scheme Advisory Board good governance review* This area of work was expected to commence in Q3 but DLUHC have not yet issued their consultation on proposed changes from the good governance review. This is now not expected this year and the business plan has been updated accordingly to allow for this to go into 2023/24.

	• *G6 – Review/Tender Fund Actuary, Investment Consultancy and Independent Adviser Contracts* The Fund's investment consultancy and independent adviser contracts reach their initial break point on 31 March 2023, albeit they can be extended by the Committee for 2 years. A separate report is included in Part 2 of the agenda to consider whether the contracts should be extended.
1.02	**Current Developments and News** *Women in Pensions Awards 2022* Both Debbie Fielder, the Deputy Head of Clwyd Pension Fund and Karen Williams, the Pensions Administration Manager, were nominated and shortlisted for this year's Professional Pensions' Women in Pensions awards. Both were shortlisted in the Pensions Manager of the Year and Karen was shortlisted and was Highly Commended for Administrator of the Year. This is an exceptional achievement for them both given the awards cover all private and public pension schemes in the UK.
1.03	*Pension Board meetings* The Clwyd Pension Board met on the 30 September 2022 and a verbal update was provided at the last Committee meeting. The Board minutes are currently being finalised but the key discussions at the Board meeting are summarised below: • There was an update on the progress of Committee induction training with the Board taking comfort from the fact that a robust and well run process was being undertaken • A significant amount of time was spent discussing the current workforce issues within the Fund. There are ongoing concerns about difficulties filling all the currently available roles and succession planning for staff who are approaching retirement age. Vacant posts as well as increases in work areas are impacting the ability of the Fund to continue to meet target service standards. It was noted that the Fund's costs are borne from the Fund's assets and not from Flintshire County Council's budget, so the Board requested that the Fund officers remind the Council of the differences in structure between the Fund and the Council. In particular, it was noted that the Fund should request that they remain exempt from any requirement to put in business cases for further recruitment. [*Please see subsequent update on this point in paragraph 2.02 where it has been agreed that Pension Fund recruitment will not be subject to the any restrictions imposed by Flintshire County Council due to the current budgetary constraints.*] The Pensions Administration Manager also highlighted an increase in the retirement cases administration staff have had to process in recent months and explained further investigations are being carried out to determine whether this is likely to increase, so the impact on resources can be considered. • Another key discussion related to an update from the Board Secretary on the governance arrangements in place to allow the

	Fund to respond to market turbulence which was experienced in early September. The Board took comfort in the robust approach to managing the Fund's investments even during a period of financial crisis. • The final main area of discussion related to the Wales Pensions Partnership (WPP) contract with Link as the Operator for the asset pooling arrangement. A proposed takeover of Link Group had fallen through following conditions being imposed by the FCA. Officers had been involved in discussions with the WPP Host Authority and their oversight advisers. Concerns about the uncertainties around the situation were discussed at the meeting and it was agreed that the Chair of the Pension Board would escalate those concerns at the Clwyd Pension Fund Advisory Panel and also the WPP Pension Board Chairs' Engagement meeting in October. • The Board also received an update on the approach being taken to implement the new Communications Strategy. This primarily focused on the timelines for implementation as well as the next steps, such as issuing a member satisfaction surveys and running some member focus groups. The Board did note and welcome the ongoing increase in members using the Fund's Member Self-Service facility. • The Board considered their response to the findings of the Pension Board Effectiveness survey. Broadly speaking they observed the Board appears to be a well-run and effective group. Areas they discussed included how there could be easier ongoing access to Board papers. The Board would try to meet face to face for some future meetings which would be determined in advance of each meeting, noting that hybrid or virtual meetings should still be considered. There was also some discussion about trying to space meetings out more evenly. These were discussed alongside a number of standing and other items covering information such as administration performance, asset pooling arrangements, risks to the Fund, breaches of the law, the ongoing 2022 Actuarial Valuation, cyber security and business continuity. The next Pension Board meeting is on the 1st March 2023.
1.04	*WPP Pension Board Chairs' Engagement meeting* The Chair of Clwyd Pension Board attended the twice-yearly WPP Engagement meeting of the Welsh Pension Board Chairs on 26 October 2022. This meeting provides an opportunity for the Welsh Pension Board Chairs to ask questions of officers and advisers relating to the governance and administration of the WPP. Prior to the meeting and following this meeting, the Chair of the Clwyd Pension Fund Board (Mrs Karen McWilliam) has been speaking to the officers of the Fund regarding the risk related to Link Fund Solutions Limited which is the Operator for the WPP. A further update on this matter is included in the pooling update report.

1.05	*Pension Board Appointment* Mrs Elaine Williams, the non-trade union scheme member representative on the Pension Board, will have been in position for three years in February 2023. The Pension Board Protocol states that scheme member representatives are appointed for a period of three years but this may be extended up to five years if agreed by the Board Secretary. The Board Secretary is currently Mr Philip Latham, the Head of Clwyd Pension Fund. Given her contribution over the years, the Chair has asked Mrs Williams if she would be willing to continue in this post for another two years which she has kindly confirmed. Mr Latham has confirmed his agreement to this extension to February 2025.
1.06	*LGPS Scheme Advisory Board (SAB) meetings* The LGPS SAB met on 10 October. At the point of writing the summary of this meeting was not published but papers and an agenda for the meeting are available here which include: • Climate Risk Reporting Consultation – The SAB are preparing their response to DLUHC's TCFD consultation for LGPS Funds. • Updates from the SAB's sub-committees. The next SAB meeting is scheduled for 5th December
1.07	*New Ministerial team at the Department for Levelling Up, Housing and Communities (DLUHC)* Since our last update there have been a number of changes in the ministerial team at DLUHC. On 4 November, Lee Rowley confirmed he had been appointed as the new Local Government Minister. It is interesting to note that he holds this role as a Parliamentary Under Secretary of State; previously the role was held by individuals with more senior positions (such as Minister of State). Changes in the role-holder continue to result in delays or changes to priorities at a national level, and particularly in delays to expected consultations in areas such as McCloud and asset pooling statutory guidance.
1.08	*SAB correspondence with DLUHC* In recent months the SAB Chair wrote to the previous Local Government Minister, Paul Scully MP, on a range of issues including: • Audit issues within the LGPS – There have been issues with a number of English LGPS administering authorities not being able to finalise their pension fund accounts because they are part of their local authority accounts and there are delays with the external audit of these. This is different in Wales where the pension fund accounts are separate (albeit there have been some delays with external audit in Wales but this has not impacted on closing the Clwyd Pension Fund accounts on time). SAB has asked DLUHC to consider separating out the pension fund accounts from the local authority accounts in England.

	• Age discrimination in LGPS benefits - SAB has recommended reform of elements of the LGPS rules on death grants and survivor benefits to address recent challenges that the current rules are discriminatory in some areas and protect against potential future legal challenge. • Fair deal policy – SAB have requested an update on the Fair Deal policy and whether SAB could contribute to the process of finalising this policy. The SAB Chair had also invited the previous Minister to a future SAB meeting, to assist the Minister to constructively engage on current issues with relevant stakeholders and discuss current developments within the LGPS.
1.09	*Scheme Advisory Board issues response to HM Treasury's exit pay consultation* Between 8 August and 17 October, HMT ran a consultation titled " Public Sector Exit Payments: a new controls process for high value exit payments". As this was targeted at employees of central government it is likely that this will not affect local government workers directly. However as some LGPS employers are likely to be covered by the new arrangements, the Scheme Advisory Board submitted a response that can be found here. It is also worth noting that the consultation confirmed that the process will not apply to bodies under the devolved administrations which means it will not apply to bodies in Wales. However it could apply to roles located in Wales that relate to functions under the control of HM Treasury.
1.10	*Scheme Advisory Board 2021/22 SF3 Statistical Return Briefing Note* Every year all English and Welsh LGPS administering authorities are required to submit certain statistical information to DLUHC covering areas such as income, expenditure, membership and retirements. This is collated and the results made public. SAB issued a briefing note on some key findings from the 2021/22 return which is included in Appendix 2 for information.
1.11	*Scheme Advisory Board Statement on employer contributions* On 1 November 2022, SAB issued a statement setting out their recommendations resulting from the discussion had at their meeting on 10 October about the results emerging from the triennial actuarial valuation of LGPS Funds. In this statement, SAB cautioned against adopting reductions in employer contributions as a result of improvements in funding position, in favour of moving towards a more prudent funding strategy that recognises the level of uncertainty in the market. They emphasised that even keeping in mind the level of financial stress currently being experienced by local governments, this would be the more desirable approach to consider. The Fund's approach to this is discussed in agenda item 5, the item relating to the Funding Strategy Statement.

	Policy and Strategy Implementation and Monitoring
1.12	*Governance Policy and Compliance Statement* At the last Committee meeting, the Committee agreed proposed changes to the Fund's Constitution and the Pension Board Protocol that mainly related to the departure of the former Chief Executive. For most of these, it was proposed that the responsibilities moved to the Head of Clwyd Pension Fund. These proposed changes were considered and approved in full by Flintshire County Council on 18 October 2022. As these changes have now been approved, it is necessary to incorporate them into the Fund's Governance Policy and Compliance Statement. Accordingly, Appendix 3 includes the Policy with the proposed changes highlighted within it. The Committee are asked to approve these changes.
1.13	*Annual Review of Objective Measures for Governance Related Policies/Strategies* Within the Fund's strategies and policies, there are a number of measures to illustrate whether the Fund's objectives in those areas are being achieved. Many of these measures are included in the Committee's quarterly updates (such as training attendance and key performance indicators) and also in the Annual Report and Accounts. However, as there are some within the Fund's governance related policies which are not otherwise reported, a summary of all measures is provided on an annual basis as part of this Governance Update report. This ensures transparency that all measures are being considered. Appendix 4 includes a list of the measures in the governance related policies and the outcomes relating to them, which are mainly very positive. For security reasons, the measures relating to the Business Continuity Policy and Cyber Strategy are included as part of the cyber security update report in part 2 of the agenda.
1.14	*Knowledge and Skills Policy and Training Plan* <u>Policy requirements</u> The Clwyd Pension Fund Knowledge and Skills Policy requires all Pension Fund Committee members, Pension Board members and Senior Officers to: • attend training on the key elements identified in the CIPFA Knowledge and Skills Framework as part of their induction and on an ongoing refresher basis • attend training sessions on "hot topic" areas, such as a high risk area or an area of change for the Fund and • attend at least one day each year of general awareness training or events. <u>Training undertaken</u> - Appendix 5 sets out the Training Plan for the Fund. Recent events include: • June to October – Induction training for new Committee members

	• 8 to 9 September - LGC Investment Seminar • 5 October – Investment strategy review and asset classes • 19 October – WPP training on governance, administration and roles/responsibilities within the WPP A summary of attendance at the Fund's essential training sessions (other than induction training) over 2022/23 to date is included below:

	Date	Number of Committee attending (Proportion of total)	Number of Board attending (Proportion of total)	Number of Officers attending (Proportion of total)
Hot Topic Sessions – Target attendance is 75%				
Communications Strategy Review	Jun-22	6 (100%)	4 (80%)	4 (80%)
Actuarial Valuation and Funding Strategy	Aug-22	7 (78%)	5 (100%)	5 (100%)
Investment Strategy	Oct-22	7 (78%)	4 (80%)	4 (80%)
Total		**20 (83%)**	13 (87%)	13 (87%)

	Future training and events Officers will continue to provide information on further training sessions and events as this becomes available. In the meantime, if any Committee or Board members wish to attend any of the following optional events that count as general awareness training, please contact the Deputy Head of Clwyd Pension Fund: • 5 December 2022 – WPP responsible investments, Stewardship Code and TCFD reporting • 20 January 2023 – LGA annual LGPS governance conference (Cardiff) • 30 to 31 March 2023 – LGC Investment Conference (Carden Park, Cheshire). Committee members should note the following training sessions which are classed as **essential** for all Committee and Board members and senior officers: • 18 January 2023 - Private Markets • 1 February 2023 – LGPS Task Force on Climate-Related Financial Disclosures.
1.15	*Recording and Reporting Breaches Procedure* The Fund's procedure requires that the Head of Clwyd Pension Fund maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 6 details the current breaches that have been identified. The new breaches that have been added since the last Committee are as follows:

	• F89 onwards – These four new breaches relate to late submission of remittances by four separate employers. All but one of the breaches have now been resolved. It is also worth noting that all the breaches highlighted at the last meeting relating to late payment of contributions have also been resolved, albeit there is one outstanding contribution admittance.
1.16	**Delegated Responsibilities** The Pension Fund Committee have delegated a number of responsibilities to officers or individuals. There have been no uses of delegated powers for governance matters since the last update report.
1.17	**Calendar of Future Events** Appendix 7 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates. Key dates to note are: • The Fund's Annual Joint Consultative Meeting will take place on 13 December 2022 – all Committee and Board members are invited to attend this event and a "save the date" has been issued by Charley Evans, the Fund's Communications Officer. • The next Committee meeting is on 15th February 2023.

2.00	**RESOURCE IMPLICATIONS**
2.01	As referred to in the other update reports, difficulties in recruitment and retention are resulting in pressures on resources, which are beginning to impact on services. There are also likely to be a number of retirements over the next few years which could also impact on service delivery. Ongoing discussions are taking place at the Advisory Panel, with further work being undertaken on succession planning and forecasting trends in workloads. Any immediate concerns may result in requests for additional temporary positions, and some longer term requirements are expected to be incorporated into the business planning and budget proposals for 2023/24 which will be brought to the Committee in March 2023.
2.02	The Council may need to introduce restrictions on recruitment due to budgetary pressures. As the administration of the Fund is a direct cost to the Fund, the Senior Manager, Human Resources and Organisational Development agreed with the Chief Executive that the Fund would be exempt from any such FCC's requirements.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	Appendix 8 provides the dashboard showing current risks relating to the Fund as a whole, as well as the extract of governance risks. The risk register has been updated since it was last presented to the Committee in August.
4.02	The key changes relates to: • risk number 3 - decisions are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers, meaning our legal fiduciary responsibilities are not met. The likelihood has been reduced from Significant to Very Low, and the impact has been reduced from Marginal to Negligible, which brings this risk back to target. This is due to the fact that induction training with new members on understanding their roles and responsibilities, potential conflicts of interest and how conflicts must be managed is now complete. • risk number 5 - externally led influence and change meaning the Fund's objectives/legal responsibilities are not met or are compromised. The likelihood has been updated from Low to Significant due to the issues that Link Fund Solutions Limited, a supplier to WPP, are facing (considered further in the Supplier contract report).
4.03	The other risk that is furthest from target is risk number 6 (insufficient staff numbers meaning services are not being delivered to meet legal and policy objectives). This remains high due to the difficulties with recruiting to vacant positions and retention (including potential retirements in the next few years).

5.00	APPENDICES
5.01	Appendix 1 - Business plan progress 2022/23 Appendix 2 - SAB 2021/22 SF3 Statistical Return Briefing Appendix 3 - Governance Policy and Compliance Statement Appendix 4 - Annual Review of Objective Measures for Governance Related Policies/Strategies Appendix 5 - Training plan Appendix 6 - Breaches log Appendix 7 - Calendar of future events Appendix 8 - Risk Register

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None in this report **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – 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) **Committee or PFC – 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) **Board, LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DLUHC. (g) **DLUHC – Department of Levelling Up, Housing and Communities** – the government department responsible for the LGPS legislation. (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement. (i) **CIPFA – Chartered Institute of Public Finance and Accountancy -** a UK-based international accountancy membership and standard-setting body. They set the local government accounting standard and also provide a range of technical guidance and support, as well as advisory and consultancy services. They also provide education and learning in accountancy and financial management.

	(j) **TPR – The Pensions Regulator** – TPR has responsibilities to protect UK's workplace pensions and make sure employers, scheme managers and pension specialists can fulfil their duties to scheme members. This includes oversight of public service pension schemes, including the LGPS. Specific areas of oversight are set out in legislation and also expanded on within TPR's Guidance and Codes of Practice. (k) **PLSA - Pensions and Lifetime Savings Association** – PLSA aims to bring together the industry and other parties to raise standards, share best practice and support its members. It works collaboratively with members, government, parliament, regulators and other stakeholders to help build sustainable policies and regulation which deliver a better income in retirement. (l) **HMT – His Majesty's Treasury** – HMT has a responsibility to approve all LGPS legislation before it is made.

Business Plan 2022/23 to 2024/25 – Q3 Update
Governance

Cashflow projections

	2020/21 £000s	2021/22 £000s	2022/23 £000s			
	Actual	Actual	Budget	Actual	Projected for full year	Final under/ over
Opening Cash	(20,237)	(37,078)	(75,898)	(79,645)		
Payments						
Pensions	64,908	66,794	68,400	35,098	70,196	1,796
Lump Sums & Death Grants	12,475	17,158	16,000	8,335	16,670	670
Transfers Out	5,901	4,459	6,000	3,265	6,530	530
Expenses	5,073	5,047	6,800	2,475	4,950	(1,850)
Tax Paid	174	73	100	5	10	(90)
Support Services	173	173	200	0	150	(50)
Total Payments	88,704	93,704	97,500	49,178	98,506	1,006
Income						
Employer Contributions	(49,282)	(49,897)	(49,000)	(27,173)	(52,917)	(3,917)
Employee Contributions	(17,518)	(17,530)	(17,200)	(9,426)	(16,868)	332
Employer Deficit Payments	(14,977)	(14,383)	(15,000)	(14,609)	(15,000)	0
Transfers In	(3,393)	(6,957)	(6,000)	(2,690)	(6,000)	0
Pension Strain	(107)	(1,482)	(1,200)	(152)	(304)	896
Income	(30)	(13)	(40)	(53)	(106)	(66)
Total Income	(85,307)	(90,262)	(88,440)	(54,103)	(91,195)	(2,755)
Cashflow Net of Investment Income	3,397	3,442	9,060	(4,925)	7,311	(1,749)
Investment Income	(10,270)	(11,635)	(8,000)	(7,177)	(11,387)	(3,387)
Investment Expenses	3,918	6,162	4,000	3,200	6,400	2,400
Total Net of In House Investments	(2,955)	(2,031)	5,060	(8,902)	2,324	(2,736)
In House Investments						
Draw downs	43,927	66,941	103,661	42,396	98,746	(4,915)
Distributions	(63,533)	(117,117)	(98,146)	-39,480	(83,297)	14,849
Net Expenditure /(Income)	(19,606)	(50,176)	5,515	2,916	15,449	9,934
Total Net Cash Flow	(22,561)	(52,207)	10,575	(5,986)	17,773	7,198
Rebalancing Portfolio	5,720	9,640		0	(5,000)	(5,000)
Total Cash Flow	(16,841)	(42,567)	10,575	(5,986)	12,773	
Closing Cash	(37,078)	(79,645)	(65,323)	(85,631)	(66,872)	

Operating Costs

	2020/21	2021/22	2022/23			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/ over
	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses						
Employee Costs (Direct)	261	299	397	**130**	**397**	0
Support & Services Costs (Internal Recharges)	22	23	24	**0**	**24**	0
IT (Support & Services)	1	0	5	**0**	**5**	0
Other Supplies & Services)	54	65	95	**25**	**95**	0
Audit Fees	39	41	45	**20**	**45**	0
Actuarial Fees	504	493	879	**335**	**879**	0
Consultant Fees	847	1,065	1,627	**571**	**1,627**	0
Advisor Fees	576	532	517	**286**	**517**	0
Legal Fees	16	113	100	**40**	**100**	0
Pension Board	106	101	113	**60**	**113**	0
Pooling (Consultants & Host Authority)	101	144	197	**17**	**197**	0
Total Governance Expenses	2,527	2,876	3,999	**1,484**	**3,999**	0
Investment Management Expenses						
Fund Manager Fees*	16,924	19,490	16,275	**3,193**	**20,000**	3,725
Custody Fees	69	106	112	**14**	**112**	0
Performance Monitoring Fees	67	53	53	**15**	**53**	0
Pooling (Operator / Manager)	304	998	500	**0**	**1,000**	500
Total Investment Management Expenses	17,364	20,647	16,940	**3,222**	**21,165**	4,225
Administration Expenses						
Employee Costs (Direct)	1,091	1,242	1433	**595**	**1,433**	0
Support & Services Costs (Internal Recharges)	156	150	158	**0**	**158**	0
Outsourcing	197	41	0	**0**	**0**	0
IT (Support & Services)	408	488	715	**453**	**715**	0
Other Supplies & Services)	112	103	146	**32**	**146**	0
Miscellaneous Income	0	0	0	**0**	**0**	0
Total Administration Expenses	1,964	2,024	2,452	**1,080**	**2,452**	0
Employer Liaison Team						
Employee Costs (Direct)	199	218	363	**180**	363	0
Total Costs	**22,054**	**25,765**	**23,754**	**5,966**	**27,979**	**4,225**

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Governance Tasks

Ref	Key Action –Task	2022/23 Period				Later Years	
		Q1	Q2	Q3	Q4	2023/ 24	2024/ 25
G1	Induction training (if required)	x	x				
G2	Develop business continuity arrangements including managing cyber risk	x	x	x			
G3	Review against TPR new Single Code	x	x	x	x	xN	
G4	Review appointment of Local Pension Board and Pension Fund Committee Members		x	x	x		
G5	Outcome of Scheme Advisory Board good governance review			x	x	x	
G6	Review/Tender Fund Actuary, Investment Consultancy and Independent Adviser Contracts			x	x		x

Governance Task Descriptions

G1 – Induction training (if required)

What is it?

The Pension Fund Committee includes a number of elected members from Flintshire County Council, Denbighshire County Borough Council and Wrexham County Council. The Welsh local authority elections are taking place in May 2022. After those elections each Council will decide which elected members will be put forward as members of the Clwyd Pension Fund Committee.

Given the complexity of managing the Clwyd Pension Fund, it is always preferred that changes to the Committee are kept to as a minimum, but where this is unavoidable, it is important that any new members are given a full programme of induction training as soon as possible. Accordingly, if required, officers and advisers will put in place an induction programme which is likely to commence in June 2022.

Timescales and Stages

Develop and deliver induction training	2022/23 Q1 to Q2

Resource and Budget Implications

The estimated costs for delivering induction training is included within this year's budget. It is expected this will be led by the Head of Clwyd Pension Fund and the Independent Adviser, albeit other officers and advisers will be involved in the delivery of the training.

G2 – Develop business continuity arrangements including managing cyber risk

What is it?

The Fund has been carrying out a fundamental review of their business continuity arrangements, and this has included developing their cyber resilience given cybercrime is a key risk to the Fund. Although much of this will result in new or enhanced ongoing internal controls which will be part of the Fund's business as usual activities, there are some key areas that are still being developed including:

- finalising the Fund's new business continuity plan.
- developing a cyber specific incident response plan.
- creating a testing schedule (covering both general business incidents as well as cyber-attacks)
- documenting processes where gaps were identified as part of the Business Impact Analysis and developing a plan for further staff training.

Timescales and Stages

Developing Business Continuity Plan	2022/23 Q1 to Q2
Develop cyber incident response plan	2022/23 Q1 to Q2
Document processes relating to gaps & identify ongoing training needs	2022/23 Q1 to Q3
Develop Testing Schedule	2022/23 Q2 to Q3

Resource and Budget Implications

To be led by the Deputy Head of Clwyd Pension Fund and the Pensions Administration Manager with input from the Head of Clwyd Pension Fund and guidance from the Independent Adviser. All expected costs are included within the existing budgets.

G3 – Review against TPR new Single Code

What is it?

The Pensions Regulator (TPR) is expected to introduce a new Single Code during 2022; it is unlikely to be laid in Parliament before spring 2022 and therefore unlikely to be effective before summer 2022. This new Code will merge the existing 15 codes the Regulator has in place. The first iteration of the new Code will include Code of Practice No.14 (the relevant Code for Public Service Pension Schemes) as part of the merger of 10 of the 15 codes currently in place. This could result in changes to the requirements placed on Public Service Pension Schemes, including the LGPS. Work will be undertaken to review whether the Fund complies with the requirements within the new Code. After the initial review, ongoing compliance checks will be carried out on a regular basis.

Timescales and Stages

Consider implications of the new Single Code once it is laid in Parliament and start working towards compliance	2022/23 Q1 to 2 (estimated)
Start reporting the CPF's compliance and activity against the new Single Code from TPR	2022/23 Q3 to 4 (estimated)

Resource and Budget Implications

This work will be performed by the Deputy Head of Clwyd Pension Fund and Pensions Administration Manager working with the Independent Adviser. Estimated costs of the review are included within the budgets shown.

G4 – Review appointment of Local Pension Board and Pension Fund Committee Members

What is it?

The employer and scheme member representatives on the Local Board are appointed for a period of three years. This period may be extended to up to five years. The current appointments will be subject to review as follows:

- Scheme member representative (trade union) – October 2022 (five-year point)
- Scheme member representative (non-trade union) – February 2023 (three-year point)
- Two scheme employer representatives – July 2023 (three-year point)

For information, the representative members (for other scheme employers and scheme members) on the Pension Fund Committee are appointed for a period of not more than six years. The existing representative members were appointed in July 2020 and may be reappointed for further terms. Therefore, their existing appointments will need to be reviewed by July 2026 (which is outside the period of his business plan).

When considering Committee and Board appointments, the aspiration for diversity will be considered, albeit it is recognised that for elected members, this is largely out of the Fund’s control as (a) the Councils decide who are to be on the Committee and (b) pool of elected members is subject to local elections.

Timescales and Stages

Appoint Pension Board representative (trade union scheme representative)	2022/23 Q2 to Q3
Review Pension Board scheme member representative (non-trade union)	2022/23 Q3 to Q4

Resource and Budget Implications

It is expected this will mainly involve the Head of Clwyd Pension Fund taking advice from the Independent Adviser. All costs are being met from the existing budget.

G5 – Outcome of Scheme Advisory Board good governance review

What is it?

The national LGPS Scheme Advisory Board (SAB) carried out a project to help and assist with the successful management of potential conflict of interests arising between a pension fund and its parent local authority. It was originally investigating options for change regarding the separation of LGPS pension funds and their host authorities.

The review has now evolved to focus on the elements of good governance, rather than the structure of the organisation. A number of recommendations have been made including ensuring appropriate conflicts of interest management, knowledge and skills and having a designated LGPS lead officer in each administering authority. The SAB has now made a number of formal recommendations to DLUHC, including the request for DLUHC to issue statutory guidance relating to the areas of best practice identified by the project. SAB will also be undertaking a number of surveys to take forward some of the work and is expected to issue guidance in due course. The actual timescales are estimated and may be delayed due to other national priorities.

Timescales and Stages

Expected period to review existing arrangements against new statutory guidance and/or guidance	2022/23 Q3 to 2023/24 (estimated)

Resource and Budget Implications

Estimated costs for this work are included within this year's budget although costs are uncertain at this time and may vary depending on the final guidance and requirements. It is expected this will mainly involve the Head of Clwyd Pension Fund taking advice from the Independent Adviser.

G6 – Review/Tender Fund Actuary, Investment Consultancy and Independent Adviser Contracts

What is it?

The Fund's actuary and benefits consultant contract reaches its initial break point on 31 March 2025 albeit, it can be extended by the Committee for 1 year.

The Fund's investment consultancy and independent adviser contracts reach their initial break point on 31 March 2023 albeit, they can be extended by the Committee for 2 years. The independent adviser can also be the Chair of the Pension Board and therefore that needs to be considered at the same point.

Timescales and Stages

Consider extension of investment consultancy and independent adviser contracts	2022/23 Q3 & Q4
Conduct tenders for investment consultancy services and independent adviser (assuming extensions have been applied)	2024/25
Consider extension of actuarial and benefits consultancy contract	2024/25
Conduct tender for actuarial and benefits consultancy services (assuming extension has been applied)	2025/26

Resource and Budget Implications

To be led by the Deputy Head of Clwyd Pension Fund within existing budget.

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2021/22 SF3 Statistical Return (England and Wales)

This note summarises the key points from the 2021/22 SF3 statistical return published by DLUHC on the 26th October 2022.

Background

1. Administering authorities in England and Wales (other than the Environment Agency) are required to submit an annual statistical return that is published by DLUHC in October each year. The SF3 return collects information on Local Government Pension Scheme funds' income, expenditure, membership, retirements and other activities. It also shows changes over previous years. The membership section of the statistical return is used to calculate the annual SAB levy paid by individual administering authorities.

2. The 2021/22 return is the second in a row when the October publication has been based on 66 provisional, unaudited accounts. As last year, administering authorities have been asked to submit a second return if the results of audited accounts varies materially from their provisional return. An updated return could be published sometime in early 2023 if there is any material difference between the provisional and final audited data.

Key Findings

3. The key findings of the 2021/22 return as reported by DLUHC in their return include:

   - Total Local Government Pension Scheme (LGPS) expenditure in England and Wales in 2021-22 was £14.4 billion. This was an increase of £0.9 billion or 6.6% on 2020-21. This was driven in part by an increase in lump-sum retirement payments.
   - Investment management costs also increased to £1.784 billion, up 22% from the year before.
   - Total LGPS income in England and Wales in 2021-22 was £15.9 billion. This was a decrease of £1.4 billion or 8.1%. This decrease is common in the second year of a valuation period as many employers front-load payments in the first year. This means that the scheme as a whole is still cash-flow positive, if investment returns are included.
   - Employers' Contributions to the LGPS in 2021-22 in England and Wales amounted to £7.8 billion, a decrease of 24.3%. As noted

above this is part of an established cyclical pattern. Employees' contributions to the scheme were £2.6 billion, an increase of 4.8%.

- The market value of LGPS funds at end of March 2022 was £364.0 billion, an increase of £26.9 billion or 8.0%.
- There was a small increase in active members of the scheme and they continue to make up around 32% of the overall membership. However, numbers of deferred and pensioner members continued to grow at a slightly faster rate.
- There were 94,724 retirements from the LGPS in 2021-22, an increase of 11,788 or 14.2% compared with 2020-21. There was a 30% increase in the number of "normal retirements", and there was also a significant increase in the number of requests for early payment of deferred benefits (up from 49,348 in the previous year to 54,050 in 2021-22). This may be due to people being unable or unwilling to retire during the coronavirus pandemic, and more people choosing to retire as the pandemic abated.

Bob Holloway
Pensions Secretary

3rd November 2022

* * *

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for
CLWYD PENSION FUND

GOVERNANCE POLICY and COMPLIANCE STATEMENT

~~February 2020~~November 2022

GOVERNANCE POLICY

Introduction and Legal Requirements

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme (LGPS) Regulations.

Flexibility is provided for each Administering Authority to determine their own governance arrangements. However, the LGPS Regulations require each Administering Authority to prepare, publish and maintain a governance policy and compliance statement setting out whether the Administering Authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority, and if so:

a) the terms, structure and operational procedures of the delegation,

b) the frequency of any committee or sub-committee meetings,

c) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights

d) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying, and

e) details of the terms, structure and operational procedures relating to the local pension board.

The regulations require Administering Authorities to consult such persons as it considers appropriate when preparing the policy and compliance statement.

This document is the Governance Policy and Compliance Statement for Clwyd Pension Fund that has been prepared to meet the requirement of the LGPS Regulations. The compliance statement required by point (d) is included as Appendix A.

Aims and Objectives

Flintshire County Council recognises the significance of its role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 50,000 ~~46,900~~ current and former members of the Fund, and their dependants
- around 54 ~~47~~ employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:
- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

In relation to the governance of the Fund we will aim to:
- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
- Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.

Background to Governance Arrangements

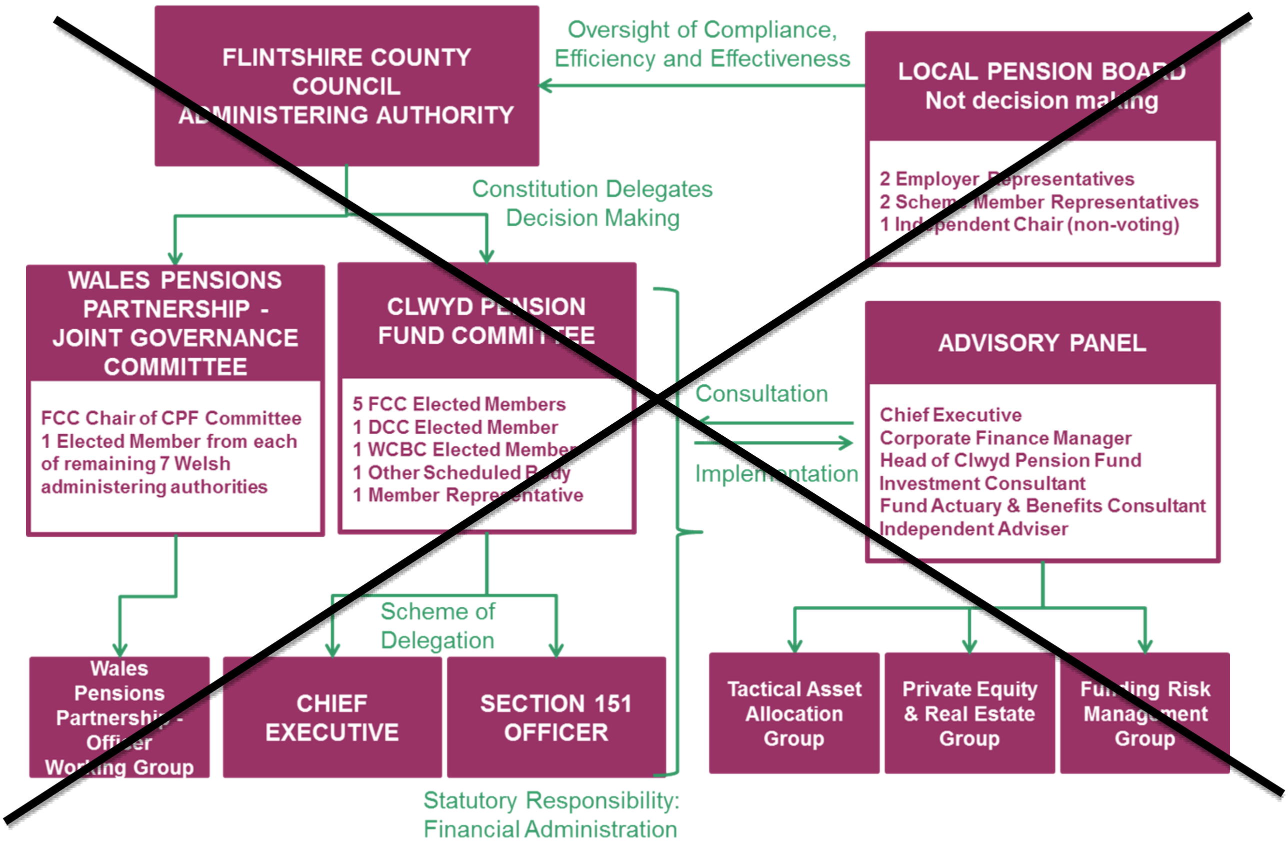
Flintshire County Council reviewed its Governance arrangements for the Clwyd Pension Fund in 2014. Prior to this date, the responsibility for the Clwyd Pension Fund rested with the Head of Finance who reported to the Clwyd Pension Fund Panel made up of elected members from Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council. In addition the panel had non-voting members including an independent adviser and a scheme member representative.

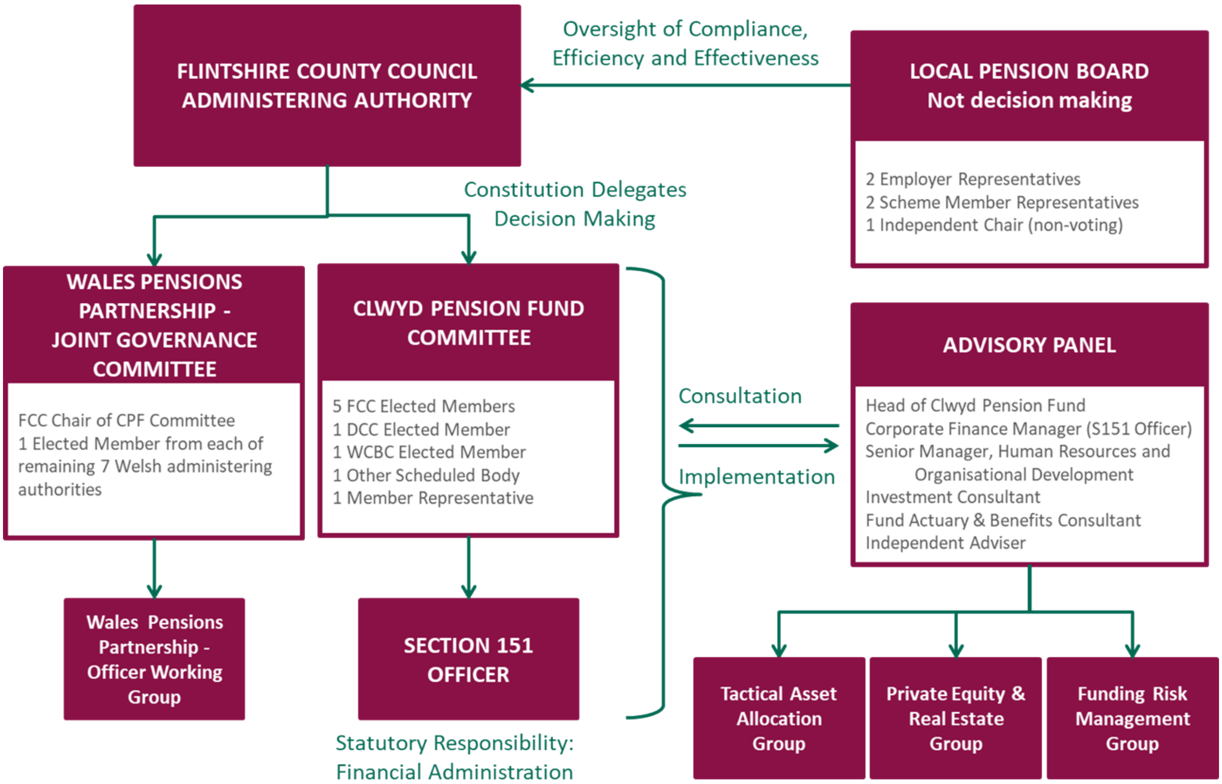
An independent review by CIPFA in 2010 found the governance of the Fund to be very good but recognised that this governance structure did not meet best practice, in particular they recommended:
- Responsibility for the management of the Clwyd Pension Fund should be transferred from the Head of Finance to a newly constituted Committee
- There should be wider representation of stakeholders on the newly constituted committee with voting rights extended to all committee members.

As a result, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. The Corporate Finance Manager is the Section 151 Officer and has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Head of Clwyd Pension Fund ~~Chief Executive~~.

This governance structure was expanded in early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. It was then further expanded in March 2017 to establish the Wales Pension Partnership Joint Governance Committee and Officer Working Group and facilitate the move to pooling of pension fund assets across the eight LGPS Pension Funds in Wales.

The Council's governance structure for pension fund matters is as shown below:





Clwyd Pension Fund Committee

The Pension Fund Committee's principal aim is to carry out the functions of Flintshire County Council as the Scheme Manager and Administering Authority for the Clwyd Pension Fund in accordance with LGPS legislation.

The members of the Clwyd Pension Fund Committee are not trustees of the Fund, however, they do have a duty of care which is analogous to the responsibilities of trustees in the private sector and they could be more accurately described as 'quasi trustees'. The management of the Clwyd Pension Fund is non-political.

The Committee's specific roles as outlined in the Council's Constitution are shown in Appendix B. The Committee may also delegate a limited range of its functions to one or more officers of Flintshire County Council.

No matters relating to Flintshire County Council's responsibilities as an employer participating within the Clwyd Pension Fund are delegated to the Pension Fund Committee.

The Pension Fund Committee meets at least quarterly and is composed of nine members as follows:

- Five Councillors of Flintshire County Council, determined by the Council.
- Four co-opted members comprising:
  - One Councillor of Wrexham County Borough Council, determined by that

Council.

- One Councillor of Denbighshire County Council, determined by that Council.

- One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund as defined by Schedule 2 of the Local Government Pension Scheme 2013, as amended from time to time, appointed in accordance with procedures agreed by the Head of Clwyd Pension Fund ~~Chief Executive~~ in consultation with the members of the Pension Fund Advisory Panel.

- One Representative of the scheme members of the Clwyd Pension Fund, appointed in accordance with procedures agreed by the Head of Clwyd Pension Fund ~~Chief Executive~~.

The Council's Constitution permits named substitutes for Flintshire County Council members only, providing they satisfy the knowledge and skills policy of the pension fund. Councillors of Flintshire County Council are appointed annually. Otherwise, the terms of reference for the members range from four to six years. Members may be reappointed for further terms.

All members have equal voting rights.

Head of Clwyd Pension Fund ~~Chief Executive~~

Under the Council's Constitution, the Head of Clwyd Pension Fund ~~Chief Executive~~ is responsible for the following matters:

- The day to day management of Clwyd Pension Fund matters including ensuring arrangements for investment of assets and administration of contributions and benefits, excluding matters delegated to the Pension Fund Committee.

- Establishing and Chairing a Clwyd Pension Fund Advisory Panel consisting of officers of the Council and advisors to the Clwyd Pension Fund, to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

Section 151 Officer – Corporate Finance Manager

Under the Council's current operating model, the Chief Finance Officer (S151) role is designated to the Corporate Finance Manager. The Corporate Finance Manager therefore has a statutory responsibility for the proper financial administration of the Clwyd Pension Fund, in addition to that of Flintshire County Council.

Clwyd Pension Fund Advisory Panel

The Clwyd Pension Fund Advisory Panel has been established ~~by the Chief Executive~~ to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

Its membership consists of:
- The Corporate Manager – Humans resources and Organisational Development ~~Chief Executive~~ of Flintshire County Council
- The Chief Finance Officer of Flintshire County Council
- The Head of Clwyd Pension Fund
- Investment Consultant
- Fund Actuary
- Independent Adviser

Wales Pension Partnership Joint Governance Committee

To satisfy the Government's requirements to reduce investment related costs, the eight LGPS administering authorities in Wales, including Flintshire County Council, have entered into an Inter Authority Agreement to pool pension fund assets, a key part of which will be done by appointment of an Authorised Contractual Scheme Operator to make the investments on behalf of the administering authorities. This was agreed at the Flintshire County Council meeting on 1st March 2017. The report and appendices can be found here.

As part of this pooling arrangement, the authorities have also established a Joint Governance Committee with a number of responsibilities including the following:
- Monitoring the performance of the Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight Funds
- Providing accountability to the participating Funds on the management of the Pool
- Reporting on the Pool to the UK Government and other stakeholders
- Having oversight of an Officer Working Group

Flintshire County Council has determined that the Clwyd Pension Fund representative on the Joint Governance Committee will be the Chair of the Pension Fund Committee. In their ~~his or her~~ absence, the Vice Chair will act as the Deputy.

The Pension Fund Committee will determine which officers of Clwyd Pension Fund will represent the Fund on the Officer Working Group.

The Joint Governance Committee meets at least four times each year and is composed of one elected member from each Administering Authority responsible for maintaining an LGPS Pension Fund in Wales. These are:
- Carmarthenshire County Council
- City & County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council.

Each member present at the Joint Governance Committee is entitled to a vote and all members have equal voting rights.

In addition there is a non-voting co-opted scheme member representative on the Joint Governance Committee.

Carmarthenshire County Council acts as Host Council in relation to the Wales Pension Partnership Inter Authority Agreement. This role includes the following in relation to the management of the pooling arrangements:

- Acting as the main point of contact
- Providing administrative resources and facilities, and governance and administrative services
- Entering into contracts for supplies and services
- Liaising with the Operator.

Wales Pension Partnership Officer Working Group

The Wales Pension Partnership Officer Working Group has been established as part of the Wales Pension Partnership Inter Authority Agreement to support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates to officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group.

The full list of responsibilities and procedures relating to the Joint Governance Committee, Officer Working Group and Host Council are included in the Inter Authority Agreement.

Pension Board

Each LGPS Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Flintshire County Council does not apply to the Pension Board unless it is expressly referred to in the Board's Protocol. The Clwyd Pension Board was established by Flintshire County Council in March 2015 and the full Protocol of the Board can be found within the Council's Constitution. The key points are summarised below.

The Pension Board provides oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pension Fund Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the Pension Fund Committee.

The Pension Board consists of five members as follows:

- Two Employer Representatives
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions, and one who is a member of the Clwyd Pension Fund
- One Independent Member who acts as chair of the Pension Board.

All Pension Board members, excluding the Independent Member, have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only considered quorate when at least three of the five members are present, including at least one Employer Representative, one Scheme Member Representative and the Independent Member.

Members of the Pension Board are required to declare, on appointment and at each meeting, any interests that may lead to conflicts of interest in relation to Pension Fund matters or agenda items.

The Pension Board meets a minimum of twice and a maximum of four times in each calendar year in the ordinary course of business. Additional meetings may be arranged, subject to approval by the Board Secretary (who is the Head of Clwyd Pension Fund) ~~Chief Executive~~, to facilitate its work.

Training

Flintshire County Council recognises that effective management, administration and decision making can only be achieved where those involved have the requisite knowledge and skills. Accordingly, in relation to the management of the Clwyd Pension Fund, we adopt the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

This means we will ensure that we have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant LGPS and related knowledge and skills for those responsible for management, administration and decision-making relating to the Fund. These policies and practices will be guided by reference to the framework of knowledge and skills defined within the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Clwyd Pension Fund's Knowledge and Skills ~~Training~~ Policy can be found on the Fund's website – https://mss.clwydpensionfund.org.uk/

We will report on an annual basis how well this Policy has been adhered to throughout the financial year as part of the Fund's Annual Report and Accounts.

The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Head of Clwyd Pension Fund ~~Chief Executive~~, who will act in accordance with the Fund's Policy.

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Training ~~and Competence~~ Policy. All members are required to undertake the training that is provided.

Conflicts of Interest

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed.

Clwyd Pension Fund's Conflict of Interest Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity. The Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

The Policy can be found on the Fund's website – https://mss.clwydpensionfund.org.uk/

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Conflicts of Interest Policy.

Risk Management

Flintshire County Council recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

Clwyd Pension Fund's Risk Policy details the risk management strategy for the Clwyd Pension Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

We recognise that it is not possible or even desirable, to eliminate all risks. Pension Fund risks are often driven by external factors which are totally or partially out of our control. These include national changes to the Scheme and financial market conditions. Accepting and actively managing risk is therefore a key part of our risk management strategy for Clwyd Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

We also recognise that risk management is not an end in itself. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

The Policy can be found on the Fund's website – https://mss.clwydpensionfund.org.uk/

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Risk Policy.

Welsh Language Standards

Flintshire County Council has adopted the principle that in the conduct of public business it will treat the Welsh and English languages on a basis of equality. These standards therefore also apply to the governance arrangements for the Clwyd Pension Fund. More information can be found on the Council's website or by contacting the Head of Clwyd Pension Fund.

Monitoring Governance of the Clwyd Pension Fund

The Fund's governance objectives will be monitored as follows:

Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Independent Adviser undertakes an annual review of the effectiveness of the Clwyd Pension Fund's governance arrangements, the findings of which are reported to the Committee and published. • The Pension Board prepares and publishes an annual report. • In line with the Regulations this document will be filed with the DLUHC ~~MHCLG~~.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Knowledge and Skills ~~Training~~ Policy is in place together with monitoring and reporting of all training by Pension Committee members, Pension Board members and key officers in accordance with the Knowledge and Skills ~~Training~~ Policy. • The Joint Governance Committee has a Training Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.

Objective	Monitoring Arrangements
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• A Conflicts of Interest Policy is in place together with ongoing reporting and monitoring of the register of conflicts in accordance with the Conflicts of Interest Policy. • The employers within the Fund, together with union representatives, are invited to an Annual Joint Consultative Meeting. Attendees receive presentations and have the opportunity to ask questions on the governance of the Fund. • The Pension Fund Committee includes representatives from scheme members and most employers in the Fund. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report and this ~~which~~ may also include commentary on decision making. • The Joint Governance Committee prepares an annual business plan which is brought to the Clwyd Pension Fund Committee for agreement.in accordance with the Inter Authority Agreement
Understand and monitor risk	• A Risk Policy and register in place and monitoring and reporting of risks is carried out in accordance with the Risk Policy. • Ongoing consideration of key risks at Pension Fund Committee and Pension Board meetings.

Objective	Monitoring Arrangements
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund has an Independent Governance Adviser and their annual report includes reference to compliance with key requirements. • The Fund carries out a compliance check, at least annually, against the relevant The Pension Regulator's Code of Practice. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure which is reported on and monitored as outlined in that procedure. • The Pension Board prepares and publishes an annual report which may include comment on compliance matters. • The Joint Governance Committee has a Breaches and Error Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	• All strategies and policies include reference to how objectives will be monitored. • Ongoing monitoring against key objectives at Pension Fund Committee meetings. • Ongoing monitoring of business plan targets at Pension Fund Committee meetings. • Quarterly and annual updates against the Joint Governance Committee's business plan and objectives are provided in accordance with the Inter Authority Agreement.
Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.	• All information security breaches relating to data being issued insecurely by the Fund are recorded and reviewed. • All other incidents affecting confidentiality, integrity and accessibility of data, systems or services are recorded and reviewed. • The Fund has a cyber incident response plan in place. • The Fund has a business continuity plan and a testing schedule (including cyber incident testing) in place which is adhered to. • All Fund staff have undertaken GDPR training in accordance with FCC's training programme.

Key Risks

These are the main governance risks that Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, monitor on an ongoing basis.

- The potential for changes in Pension Fund Committee membership, Pension Board membership, Joint Governance Committee and/or key officers, a poor level of knowledge, poor engagement or poor oversight to impact the quality of decisions that are made.
- If potential or actual conflicts of interest are not appropriately managed, they could influence decision making, meaning decisions are not in the best interests of our fund members and employers, and our fiduciary duties are not met
- If policies are not in place or not regularly monitored, then the Fund's objectives may not be clear or appropriate
- A breakdown in risk management would result in risks not being identified or not appropriately considered, resulting in losses or other detrimental impact to the Fund or its stakeholders
- The potential for externally led influence and changes (such as scheme changes, national reorganisation, cybercrime and asset pooling) to result in the Fund’s objectives and legal responsibilities not being met or being compromised
- If, for reasons such as sickness, resignation, retirement or inability to recruit, staff numbers become insufficient, then this could result in services not being delivered to meet legal and policy objectives
- If appropriate training is not provided to those tasked with managing the Fund, or they do not understand their responsibilities, then there is the risk that legal requirements or guidance may not be complied with.

Best Practice Compliance Statement

As required by Local Government Pension Scheme Regulations the statement below compares Clwyd Pension Fund’s current governance arrangements with the best practice guidance issued by the Secretary of State for Levelling Up, Housing and Communities ~~and Local Government~~. The statement provides an explanation where the Fund is not fully compliant.

Approval, Review and Consultation

The governance structure of the Clwyd Pension Fund was reviewed in 2014. The employers of the Fund were consulted prior to that review. Employer and scheme member representatives have also been party to proposed changes to the structure including the arrangements for entering into the Wales asset pooling arrangement.

This version of the Governance Policy and Statement was approved at the Clwyd Pension Fund Committee on 23 November 2022 ~~11 February 2020~~. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Governance Policy and Statement, please contact:

Philip Latham, Head of Clwyd Pension Fund, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
Telephone - 01352 702264

Further information about the Fund can be found on its website - https://mss.clwydpensionfund.org.uk/

Further information about the Wales Pension Partnership can be found on its website - https://www.walespensionpartnership.org/.

Appendix A - Clwyd Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
A. STRUCTURE		
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**COMPLIANT**	The majority of elements of administration of benefits and strategic management of fund assets are delegated by the Council to Pension Fund Committee. The Wales Pension Partnership Joint Governance Committee has responsibility for some elements of management of the Wales Pension Partnership.
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**COMPLIANT**	Representatives covering most employers and scheme members are Co-opted Members of the Pension Fund Committee. The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers. The Wales Pension Partnership Joint Governance Committee includes one co-opted scheme member representative and is required to liaise with scheme member and employer representatives.
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**NOT APPLICABLE**	There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate. All Pension Board minutes are circulated around Pension Fund Committee members are soon as they are available as well as being included in Pension Fund Committee reports.

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Best Practice	Compliant or not?	Explanatory Note
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**NOT APPLICABLE**	
B. REPRESENTATION		
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**PARTIALLY COMPLIANT**	The Pension Fund Committee includes the following Co-opted Members: • employer representatives covering all employers with the exception of admission bodies (as admission bodies make up just a small proportion of the liabilities of the Fund) • a scheme member representative covering all categories of scheme member. In addition, an independent governance adviser, Fund's actuary and investment consultant attend all Pension Fund Committee meetings. The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers. The Wales Pension Partnership Joint Governance Committee includes one co-opted scheme member representative and is required to liaise with scheme member and employer representatives.

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Best Practice	Compliant or not?	Explanatory Note
b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**COMPLIANT**	All Pension Fund Committee members, including Co-opted Members, are treated equally with full opportunity to contribute to the decision making process and with unrestricted access to papers and training, and with full voting rights. There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate.
C. SELECTION AND ROLE OF LAY MEMBERS		
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**COMPLIANT**	This is highlighted via regular training and also when presenting this Governance Policy and Compliance Statement for approval.
b. That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**COMPLIANT**	This is no longer a legal requirement but we recognise that potential conflicts of interest can arise between existing roles (e.g. as employer representatives or scheme members) and accordingly we still carry out this practice. The Fund has a Conflicts of Interest Policy outlining the process for identifying and managing actual and potential conflicts of interest.
D. VOTING		

Best Practice	Compliant or not?	Explanatory Note
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**COMPLIANT**	The Council's Constitution and the Fund's Governance Policy and Compliance Statement make it clear that all Pension Fund Committee members have equal voting rights. The Wales Pension Partnership Joint Governance Committee voting arrangements are outlined in the Inter Authority Agreement with one vote per authority. The co-opted scheme member representative is not entitled to vote at the Joint Governance Committee.
E. TRAINING / FACILITY TIME / EXPENSES		

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Best Practice	Compliant or not?	Explanatory Note
a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**COMPLIANT**	The Fund has a Knowledge and Skills ~~Training~~ Policy that applies to all Pension Fund Committee members, Pension Board members and officers. Training is delivered through several avenues including: • An initial induction for new Pension Fund Committee and Pension Board Members • On-going training through written reports or presentations at Committee meetings • Conferences and seminars. The actual costs and expenses relating to approved training are met directly or can be reimbursed from the Clwyd Pension Fund. The co-opted members of the Pension Fund Committee and members of the Pension Board may receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme and the Pension Board Protocol. The Wales Pension Partnership Joint Governance Committee is required to prepare, maintain and adhere to a Training Policy.
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**COMPLIANT**	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**COMPLIANT**	A log of individual Member training is maintained. In addition, the Fund has adopted the CIPFA Knowledge and Skills Framework and has a Fund specific Knowledge and Skills ~~Training~~ Policy.

Best Practice	Compliant or not?	Explanatory Note
F. MEETINGS (FREQUENCY/QUORUM)		
a. That an administering authority's main committee or committees meet at least quarterly.	**COMPLIANT**	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**NOT APPLICABLE**	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	**NOT APPLICABLE**	Even though we do have lay members on our Pension Committee, we also have an Annual Joint Consultative Meeting (AJCM) for employing bodies and scheme members. The Pension Board also provides a forum for stakeholders to be represented.
G. ACCESS		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**COMPLIANT**	All Members of the Pension Fund Committee have equal access to papers. In addition, all Pension Board members have access to the same papers. The Joint Governance Committee is a public meeting so all papers (except those classified as exempt) are available to Committee and Board members, as well as members of the public.
H. SCOPE		

Best Practice	Compliant or not?	Explanatory Note
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	COMPLIANT	The remit of the Pension Fund Committee covers all Fund matters, including administration, communications, funding, investments and governance. The Pension Board provides further opportunity for these matters to be considered.
I. PUBLICITY		

Best Practice	Compliant or not?	Explanatory Note
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	COMPLIANT	The Fund publishes a detailed Annual Report, newsletters for active and pensioner members, road shows, drop in sessions and an Annual Meeting for Employers and representatives of stakeholders (AJCM). In addition all Pension Fund Committee reports are available to view on the Flintshire County Council website (other than exempt items). Arrangements relating to the Joint Governance Committee are available via this policy, with some information included in Pension Fund Committee papers. All Joint Governance Committee reports are available to view on the Carmarthenshire County Council website (other than exempt items). In addition the Joint Governance Committee includes one co-opted scheme member representative and will liaise with scheme member and employer representatives.

Appendix B – Delegated Roles and Functions of the Clwyd Pension Fund Committee

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Head of Clwyd Pension Fund ~~Chief Executive~~ and the Fund's professional advisers:

a) Ensuring the Clwyd Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, His Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.

b) Ensuring robust risk management arrangements are in place.

c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non statutory best practice guidance in relation to its management of the Clwyd Pension Fund.

d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:

   i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Flintshire County Council and making recommendations to Flintshire County Council about any changes to that framework.

   ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.

   iii) Investment strategy - approving the Fund's Investment Strategy Statement~~, Statement of Investment Principles and Myners Compliance Statement~~ including setting the Responsible Investment Policy and investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.

   iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.

   v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.

   vi) Discretions – determining how the various administering authority discretions are operated for the Fund.

e) Monitoring the implementation of these policies and strategies on an ongoing basis.

f) In relation to the Wales Pension Partnership Collaboration arrangements:

   i) Undertaking the following matters reserved to Flintshire County Council as outlined in the Inter-Authority Agreement:
      - Appointment, termination or replacement of the Operator following the making of a recommendation by the Joint Governance Committee.
      - Approval of additional expenditure not included within the Business Plan which exceeds 30 % of the approved budget in the Business Plan in any one Financial Year.
      - Formulation, approval or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.
      - Admitting a new administering authority within the LGPS to the Investment Pool as a Constituent Authority.
      - Amendment of the Agreement which is not significant to the operation of the arrangements.
      - Material change to the nature of the Operator Contract.
      - Approval of the initial strategic objectives to allow preparation of the first Business Plan (which objectives shall reflect the objectives set out in the procurement of the Operator).
      - Approval of any evaluation or scoring criteria for any procurement of a replacement Operator.
      - Approval of the Business Plan which shall include approval of the ongoing strategic objectives of the Investment Pool.
      - Determination of the timing of the transition of the assets held by Clwyd Pension Fund into the Pooling Collaboration and the funds or sub-funds operated by the Operator.

   Note the Council shall retain the power to terminate the Inter-Authority Agreement or make amendments to the Inter-Authority Agreement that may be significant to the operation of the arrangements.

   ii) Delegating powers to Flintshire County Council's own officers and the Host Council where required.

   iii) Nominating Flintshire County Council's officers to the Officer Working Group.

   iv) Monitoring of the performance of the Wales Pooling Collaboration and its Operator and recommending actions to the Joint Governance Committee, Officer Working Group or Host Council, as appropriate.

g) Approving the Fund's annual report including the Fund's financial statements.

h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.

i) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.

j) Agreeing the terms and payment of bulk transfers into and out of the Fund.

k) Agreeing Pension Fund business plans and monitoring progress against them.

l) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.

m) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

n) Receiving ongoing reports from the Head of Clwyd Pension Fund ~~Chief Executive~~ and Pensions Advisory Panel in relation to delegated functions.

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Annual Review of Objective Measures for Governance Related Policies and Strategies

Objective	Monitoring arrangements	Assessment against requirements
Governance Policy		
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	The Independent Adviser undertakes an annual review of the effectiveness of the Clwyd Pension Fund's governance arrangements, the findings of which are reported to the Committee and published.	Compliant – included in the 2021/22 Annual Report.
	The Pension Board prepares and publishes an annual report.	Compliant – included in the 2021/22 Annual Report.
	In line with the Regulations this document will be filed with the DLUHC.	Compliant.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	A Training Policy (now the Knowledge and Skills Policy) is in place together with monitoring and reporting of all training by Pension Committee members, Pension Board members and key officers in accordance with the Training Policy.	Compliant – Latest Policy approved September 2021. Monitoring information now included in Committee Governance update report as well as the Annual Report.
	The WPP Joint Governance Committee has a Training Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.	Compliant.
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	A Conflicts of Interest Policy is in place together with ongoing reporting and monitoring of the register of conflicts in accordance with the Conflicts of Interest Policy.	Compliant – Latest Policy approved September 2021. Declarations and monitoring carried out at each meeting.

Objective	Monitoring arrangements	Assessment against requirements
	The employers within the Fund, together with union representatives, are invited to an Annual Joint Consultative Meeting. Attendees receive presentations and have the opportunity to ask questions on the governance of the Fund.	Compliant.
	The Pension Fund Committee includes representatives from scheme members and most employers in the Fund.	Compliant.
	The Pension Board includes representatives from scheme members and employers in the Fund.	Compliant.
	The Pension Board prepares and publishes an annual report which may include comment on decision making.	Compliant – included in the 2021/22 Annual Report.
	The WPP Joint Governance Committee prepares an annual business plan which is brought to the Clwyd Pension Fund Committee for agreement in accordance with the Inter Authority Agreement	Compliant – last agreed at June 2022 Committee.
Understand and monitor risk	A Risk Policy and register in place and monitoring and reporting of risks is carried out in accordance with the Risk Policy.	Compliant - Latest Policy approved October 2020.
	Ongoing consideration of key risks at Pension Fund Committee meetings.	Compliant – in Committee Update reports. The risk register is also considered at all Pension Board meetings.
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee.	Compliant.

Objective	Monitoring arrangements	Assessment against requirements
	The Fund has an Independent Adviser and their annual report includes reference to compliance with key requirements.	Compliant – included in the 2021/22 Annual Report.
	The Fund carries out a compliance check, at least annually, against the relevant The Pension Regulator's Code of Practice.	Partially compliant – This was last done in October 2021 but only focussed on areas previously not fully compliant, with a more detail check deferred until TPR's new Single Code is in place (expected before now).
	The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure which is reported on and monitored as outlined in that procedure.	Compliant – in Committee Update reports.
	The Pension Board prepares and publishes an annual report which may include comment on compliance matters.	Compliant – included in the 2021/22 Annual Report.
	The WPP Joint Governance Committee has a Breaches and Error Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.	Non-compliant – this Policy is not yet in place but is on the WPP business plan for 2022/23 and 2023/24.
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	All strategies and policies include reference to how objectives will be monitored.	Compliant.
	Ongoing monitoring against key objectives at Pension Fund Committee meetings.	Compliant – in Committee Update reports.
	Ongoing monitoring of business plan targets at Pension Fund Committee meetings.	Compliant – in Committee Update reports.

Objective	Monitoring arrangements	Assessment against requirements
	Quarterly and annual updates against the WPP Joint Governance Committee's business plan and objectives are provided in accordance with the Inter Authority Agreement.	Compliant.
Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.	All information security breaches relating to data being issued insecurely by the Fund are recorded and reviewed.	Compliant
	All other incidents affecting confidentiality, integrity and accessibility of data, systems or services are recorded and reviewed.	Compliant
	The Fund has a cyber incident response plan in place.	Partially compliant – First draft has been produced, but is currently on hold whilst FCC produce their plan. The Fund's IRP will be completed after the FCC plan has been developed to ensure they are aligned.
	The Fund has a business continuity plan and a testing schedule (including cyber incident testing) in place which is adhered to.	Partially compliant – Work to produce this has begun and will be completed during the 2022/23 scheme year.
	All Fund staff have undertaken GDPR training in accordance with FCC's training programme.	Compliant
Risk Policy		
Understand and monitor risk, aiming to: • integrate risk management into the culture and day-to-day activities of the Fund	The Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of	Compliant – included in the 2021/22 Annual Report.

Objective	Monitoring arrangements	Assessment against requirements
• raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners) • anticipate and respond positively to change • minimise the probability of negative outcomes for the Fund and its stakeholders • establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice • ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.	which will focus on the delivery of the requirements of this Policy.	
Conflicts of Interest Policy		
• The identification and management of potential and actual conflicts of interest is integral to us achieving our governance objectives (as outlined above)	All declarations should be collated and recorded on the Fund's Register of Conflicts of Interests.	Compliant.
	In order for us to fulfil our obligations to manage and monitor potential conflicts of interests the Pension Fund Committee and the Pension Board must include an item on conflicts of interest at each meeting.	Compliant - This is a standing item for both the Committee and the Board.
	The Pension Board must also include an item on conflict of interest in its Annual Report.	Compliant – included in the 2021/22 Annual Report.

Objective	Monitoring arrangements	Assessment against requirements
	The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Head of the Clwyd Pension Fund.	Compliant – there have been no requests for this since the last annual review.
	Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity.	Compliant.
	Provide our findings to our Independent Adviser and ask them to include comment on the management of conflicts of interest in their annual report on the governance of the Fund each year.	Compliant – included in the 2021/22 Annual Report.
Breaches Policy		
Ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.	A report will be presented to the Pension Fund Committee on a quarterly basis setting out: • all breaches, including those reported to The Pensions Regulator and those not reported, with the associated dates. • in relation to each breach, details of what action was taken and the result of any action (where not confidential) • any future actions for the prevention of the breach in question being repeated • new breaches which have arisen since the previous meeting.	Compliant – in Committee Update reports.
	This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).	Compliant – no requests received.

Objective	Monitoring arrangements	Assessment against requirements
Knowledge and Skills Policy		
• Ensure that the Clwyd Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and skills, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape. • Those persons responsible for governing the Clwyd Pension Fund have sufficient knowledge and skills to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest. • Those persons responsible for the management and governance of the Clwyd Pension Fund are expected to be committed to attending and engaging with suggested training in accordance with the Knowledge and Skills Policy.	Compare and report on attendance at training based on the following:	Results included in the 2021/22 Annual Report. Additional reporting is provided in Committee Update reports.
	• Individual Training Needs – ensuring a training needs analysis is carried out at least once every two years* which drives the content of the Fund's training plan. *in exceptional circumstances, such as a major change to the Committee membership where induction training is being carried out, a training needs analysis may be deferred to a later date.	Compliant – completed in Spring 2020 and deferred slightly (to late 2022/early 2023) due to induction training of five new members during 2021/22
	• Hot Topic Training – attendance by at least 75% of the required Pension Fund Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.	Partially Compliant – although overall average was 75%, out of 7 training events, there were 3 where either the Committee or Board did not meet this 75% attendance target. Relates to 2021/22.[1]
	• General Awareness – each Pension Fund Committee member, Pension Board member or senior officer attending at least one day each year of general awareness training or events.	Partially Compliant – 71% of Committee and Board members achieved the requirement. Relates to 2021/22.[1]

[1] Senior officers have been excluded from the totals shown as complete attendance data for them is not held over the 2021/22 year. This information will be included for 2022/23 onwards.

Objective	Monitoring arrangements	Assessment against requirements
	• Induction training – ensuring areas of identified individual training are completed within six months of appointment.	Partially Compliant – Delivered within six months for all but one member. Relates to new members elected in 2020/21 where induction completed in 2021/22. No new members in 2021/22.
	Ask our Independent Adviser to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy.	Compliant – included in the 2021/22 Annual Report.

Training Plan as at 10 November 2022

External or CPF event?	Essential or Desirable	Title of session	Training Content	Timescale	Training Length (Hours)	Audience	Comments / Timescales
External	Desirable	WPP RI and related topics	Responsible Investments for WPP / Stewardship Code / TCFD Reporting	05 Dec 2022	2.5	Committee members, Board members, Senior Officers	
External	Desirable	LAPFF Annual conference	Foccusing on responsible investments including corporate governance and engagement	07 Dec 2022	17	Committee Members, Senior Officers	Limited space available 7 to 9 December, maximum 2 attendees
Internal	Desirable	Annual Joint Committee Meeting	Annual Joint Committee Meeting	13 Dec 2022	5	Committee members, Board members, Senior Officers	
Internal	Essential	Investment considerations - Private markets	All aspects of investing in Private Markets	18 Jan 2023	2	Committee members, Board members, Senior Officers	
External	Desirable	LGA Annual Conference	LGA LGPS Governance Conference (Cardiff)	19 Jan 2023	6	Committee members, Board members, Senior Officers	Jan 19th - Jan 20th
External	Essential	TCFD Reporting (Mercer)	TCFD Reporting Training	01 Feb 2023	1.5	Committee members, Board members, Senior Officers	
External	Desirable	LGC Investment Conference	LGC Investment Conference (Carden Park, Chester)	30 Mar 2023	0	Committee members, Board members, Senior Officers	March 30th - March 31st
Internal	Essential	TPR Single Code	Includes the role and powers of The Pensions Regulator, as well as the Code requirements	TBC	0	Committee members, Board members	March/April 2023
Internal	Essential	Administration considerations	Overview of Goodwin court case affecting widowers	TBC	0.5	Committee members, Board members, Senior Officers	
Internal	Essential	Administration considerations	New £95k cap and the impact on scheme members being given early retirement	TBC	0.5	Committee members, Board members, Senior Officers	
Internal	Essential	Governance update - Various	- MIFID2 knowledge and skills requirements and The impact on The Fund around investment restrictions - Changes to be introduced as a result of The national SAB good governance project	TBC	2	Committee members, Board members, Senior Officers	
External	Desirable	WPP LGPS pools and collaboration	Progress of other LGPS Pools / Collaboration Opportunities	TBC	2.5	Committee members, Board members, Senior Officers	Potentially Jan-March 2023
Internal	Essential	Governance considerations - Myners Principles	To include reviewing the effectiveness of the PF Committee	TBC	0.5	Committee members, Board members, Senior Officers	

Previous Events

External	Desirable	CIPFA/Isio Local Pension Board Training Event	CIPFA/Isio Local Pension Board Training Event (Webinar)	08 Nov 2022	3	Board Members	

Internal	Essential	Pension Fund Cyber Security	Pension Fund Cyber Security Induction Training	28 Oct 2022	1.5	Committee members (Induction)	
External	Desirable	WPP Governance, Administration, Roles / Responsibilities	WPP Governance and Administration, and Roles and Responsibilities within the WPP	19 Oct 2022	2.5	Committee members, Board members, Senior Officers	Start time 9.30 am
External	Desirable	LGA Fundamentals Training Programme 2022	Fundamental Training - scheme overview, covering current issues in relation to administration, investments and governance of the LGPS.	18 Oct 2022	18	Committee members, Board members	Three day programme with options to attend online or in person (Westminster or Birmingham). Dates are 18/20/27 Oct, 10/16/22 Nov, 6/14/20 Dec.
Internal	Essential	Investment considerations - investment strategy review including asset classes	Setting the strategy and delivery of Investment objectives, including the risk and return characteristics of the asset classes	05 Oct 2022	2.5	Committee members, Board members, Senior Officers	Starts at 10am
Internal	Essential	Actuarial/Funding, Accounting, Audit & Procurement	Actuarial/Funding, Accounting, Audit & Procurement Induction Training	28 Sep 2022	1.5	Committee members (Induction)	
Internal	Essential	Responsible Investment / Climate Training	Pension Fund Responsible Investment/ Climate Induction Training	23 Sep 2022	2	Committee members (Induction)	
External	Desirable	WPP Private Market Allocators/ Active Sustainable Equities	Sustainable Active Equities & Private Market assets and role of the allocator	22 Sep 2022	2.5	Committee members, Board members, Senior Officers	Start time 9.30 am
External	Desirable	LGC Conference September 2022	LGC Investments and Pensions Summit (Leeds)	08 Sep 2022	17	Committee members	8 to 9 September
Internal	Desirable	National Pensions Dashboard	Pension dashboard training	31 Aug 2022	0.5	Committee members, Board members, Senior Officers	
Internal	Essential	Funding Considerations - the valuation	Actuarial valuation and Funding Strategy Statement (FSS)	24 Aug 2022	1.5	Committee members, Board members, Senior Officers	Starts at 2.30pm
Internal	Essential	Administration and communications	Administration and communications induction training	10 Aug 2022	1.5	Committee members (Induction)	
External	Desirable	Room 151(Housing - Income Strategies/ Inflation/ Build to Rent/ Impact)	Room 151(Housing - Income Strategies/ Inflation/ Build to Rent/ Impact)	26 Jul 2022	2		
Internal	Essential	Investments matters	Investments Induction Training	20 Jul 2022	1.5	Committee members (Induction)	
Internal	Essential	Governance	Governance Induction Training	24 Jun 2022	1.5	Committee members (Induction)	
External	Desirable	Barnet Waddingham Pension Board Event	Pension Board Event	22 Jun 2022	6.5	Board Members	
External	Desirable	PLSA Conference June 2022	PLSA Local Authority Conference 2022	13 Jun 2022	20	Committee members, Board members, Senior Officers	
Internal	Essential	Communications Strategy Review	Communications Strategy Review Training	08 Jun 2022	2	Committee members, Board members, Senior Officers	
External	Desirable	Room 151 (Property- Sustainability/ Levelling up)	Room 151 (Property- Sustainability/ Levelling up)	26 May 2022	2		
External	Desirable	CIPFA	Pension Board Event	18 May 2022	6	Board members	
External	Desirable	Unison Forum	Unison Forum	20 Apr 2022	2		

Ref	A1	**Date entered in register**		19/09/2017
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late notification of joining		**Owner**	SB
Party which caused the breach	CPF + various employers			
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled. Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale. 14/8/19 General data cleansing including year-end is affecting whether legal timescale is met. Individual on long-term sick impacting this. 14/2/22 Previous issues no longer relevant. Current situation is purely due to magnitude of cases being received and potentially employer delays. 31/10/2022 Staff member doing this process had internal secondment, so vacancy now needs to be filled, and then trained.			
Category affected	Active members			
Numbers affected	2017/18: 2676 cases completed / 76% (2046) were in breach. 2018/19: 3855 cases completed / 66% (2551) were in breach. 2019/20: 3363 cases completed / 50% (1697) were in breach. 2020/21: 3940 cases completed / 39% (1544) were in a breach 2021/22 -Q1 - 789 cases completed / 15% (118) were in breach -Q2 - 769 cases completed / 25% (190) were in breach -Q3 - 1444 cases completed / 15% (190) were in breach -Q4- 1070 cases completed / 12% (128) were in breach 2022/23 -Q1 - 947 cases completed / 5% (50) were in breach -Q2 - 968 cases completed / 12% (112) were in breach			
Possible effect and wider implications	- Late scheme information sent to members which may result in lack of understanding. - Potential complaints from members. - Potential for there to be an impact on CPF reputation.			
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). / - Set up of Employer Liaison Team (ELT) to monitor and provide joiner details more timelessly. / - Training of new team members to raise awareness of importance of time restraint. / - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 -Streamlining of aggregation cases with major employers. /- Consider feasibility and implications of removing reminders for joining pack (agreed not to change). /- Consider feasibility of whether tasks can be prioritised by date of joining (agreed not to change). 14/11/19 - Utilising FCC trainees to assist with this procedure. Joined early September. 30/01/2020 - backlog completed and addressed older case work. 25/09/2020 - Appointed and training new members of staff. 17/11/2020 - Training of new staff continuing. An increase of cases completed compared to previous. Expecting next quarter results to improve due to completion of training. 02/02/2021 - Training now complete. Expecting further reductions in next quarter results as staff members become more efficient. 14/10/2021 - Due to key staff members within this area leaving the Fund in this quarter, recruitment is underway to replace these staff members and new Modern Apprentices are being trained in this area. 14/02/2022 - Appointed to vacant positions and Modern Apprentices trained in this area. 22/05/2022 - Training now complete. Expecting further reductions in next quarter results as staff members become more efficient. 12/08/2022 - Number of breaches fallen as expected due to completion of training. Recent staff vacancies will impact on this measure going forward as vacancies are filled and training starts again. 31/10/2022 - Number of breaches has increased this quarter. Staff vacancies have been advertised, shortlisting and interviews planned in the coming weeks. Prioritising workloads will be key so the number of cases in breach do not continue to rise.			

Outstanding actions (if any)	22/05/22 - Analyse new employer reports and escalate to individual employers if required. Continually review resource requirements to meet KPI. 12/08/22 - Recruit to current vacant positions responsible for this process.
Assessment of breach and brief summary of rationale	31/10/2022 - Internal promotion within the section have impacted key staff members within this area. Vacancies have been advertised to backfill these positions. Until new staff have been appointed and trained, assessment of breach will remain Amber or if continues for long may be escalated to red.
Reported to tPR	No

Ref	A2		**Date entered in register**		19/09/2017
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		Late transfer in estimate		**Owner**	SB

Party which caused the breach	CPF + various previous schemes
Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. 29/1/19 National changes to transfer factors meant cases were put on hold / stockpiled end of 2018 / early 2019. 31/10/2022 New regulatory requirements have resulted in additional steps having to be taken, which makes process longer and more complex.
Category affected	Active members
Numbers affected	2017/18: 235 cases completed / 36% (85) were in breach. 2018/19:213 cases completed / 45% (95) were in breach. 2019/20: 224 cases completed / 32% (71) were in breach 2020/21: 224 cases completed / 25% (57) were in breach 2021/22 -Q1 - 76 cases completed / 62% (47) were in breach -Q2 -76 cases completed / 22% (17) were in breach -Q3 - 91 cases completed / 15% (14) were in breach -Q4 - 66 cases completed / 14% (9) were in breach 2022/23 -Q1 - 98 cases completed / 9% (9) were in breach -Q2 - 104 cases completed / 19% (20) were in breach
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/previous schemes. - Potential for impact on CPF reputation.
Actions taken to rectify breach	17/11/2020 - Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner. 02/02/2021 - Training to continue. Complex area of work so training taking longer to complete. Training will continue through Q4. 21/05/2021 - Staff members attended external training course. 08/03/2022 - Have investigated how much of the delay is due to external schemes. 22/05/2022 - Additional checks required in transfer process. Schemes taking longer to process therefore knock on effect. Expect this to reduce as industry adjusts to new processes. 12/8/2022 - Ensure team is up to date with legislative and procedural changes. Some of this requirements are out of the Funds control so need to ensure required timescales are communicated effectively. 31/10/2022 - A review of this process is being undertaken as additional steps are now required.
Outstanding actions (if any)	31/10/2022 - Review process to ensure measure is at correct stage of process.
Assessment of breach and brief summary of rationale	31/10/2022 Number in breach has increased but will keep at amber until review of process has taken place.
Reported to tPR	No

Ref	A4		**Date entered in register**		19/09/2017
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		Late notification of retirement benefits		**Owner**	SB

Party which caused the breach	CPF + various employers + AVC providers
Description and cause of breach	Requirement to provide notification of amount of retirement benefits within 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of: - late notification by employer of leaver information - late completion of calculation by CPF - for members who have AVC funds, delays in receipt of AVC fund values from AVC provider. - temporary large increases in work due to retrospective pay award recalculations 31/10/2022 Also seeing general increase in number of retirements.
Category affected	Active members mainly but potentially some deferred members
Numbers affected	2017/18: 960 cases completed / 39% (375) were in breach. 2018/19: 1343 cases completed / 30% (400) were in breach 2019/20: 1330 cases completed / 25% (326) were in breach 2020/21: 1127 cases completed / 24% (269) were in breach 2021/22 -Q1 - 329 cases completed / 16% (53) were in breach -Q2 - 388 cases completed / 16% (64) were in breach -Q3 - 444 cases completed / 14% (64) were in breach -Q4- 373 cases completed / 11% (41) were in breach 2022/23 -Q1 - 413 cases completed / 19% (81) were in breach -Q2 - 442 cases completed / 18% (81) were in breach
Possible effect and wider implications	- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from members/employers. - Potential for there to be an impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). - Set up of ELT to monitor and provide leaver details in a more timely manner. - Prioritising of task allocation. - Set up of new process with one AVC provider to access AVC fund information. - Increased staff resources. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Improvements have been made and more should be made as staff are settled in and trained. Business case approved. 25/09/20 - Increased engagement with employers to assist with challenges faced due to working from home in relation to Covid-19 requirements. Employers faced challenges in getting information to us in relevant timescales. 17/11/2020- Number of cases completed has increased whilst percentage in breach has reduced compared to last quarter. This is hoped to continue due to increased engagement with employers and processes amended to mitigate challenges faced by Covid-19. 02/02/21 - Completed case numbers continue to increase whilst percentage in breach has reduced again this quarter. Improved engagement with employers via new monthly reporting process should assist in reducing the number of breaches further in future quarters. 21/05/2021 - New reports to employers will go live in June so expected improvement in future quarters. 12/08/2022 - Staff members leaving and re-calculation of benefits following a retrospective pay award have negatively impacted the performance in this area. Recruitment drive to fill vacant positions and review of resource in this area to tackle number of required recalculations should improve performance following necessary training. 31/10/2022 - Recalculation of benefits still impacting this area with additional recalculations due in relation to retrospective 2022 pay award. Vacancies advertised and shortlisting and interviews planned in the coming weeks. Assessment of workload and staffing in this area is underway to determine appropriate staffing levels for the continued increase in number of cases.
Outstanding actions (if any)	22/05/22 - Analyse new employer reports and escalate to individual employers if required. Complete all recalculations so all appropriate staff can focus on retirements. 12/08/2022 - Recruit to fill vacant positions. 31/10/2022 - Assessment of changes in workloads to determine any additional resource requirements.
Assessment of breach and brief summary of rationale	31/10//2022 Number of cases completed has increased but number in breach remains too high to amend assessment. Recalculation of benefits due to late pay award and vacant staff positions within this area will impact this KPI. Improvement may not be seen until all recalculations and recruitment are complete.

Reported to tPR	No

Ref	A6		**Date entered in register**		20/09/2017
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		Late notification of death benefits		**Owner**	SB
Party which caused the breach			CPF		
Description and cause of breach			Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirements are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task. 31/10/2022 More staff now trained on deaths but they are impacted due to increases in other workloads.		
Category affected			Dependant members + other contacts of deceased (which could be active, deferred, pensioner or dependant).		
Numbers affected			2017/18: 153 cases completed / 58% (88) were in breach. 2018/19:184 cases completed / 30% (56) were in breach 2019/20: 165 cases completed / 28% (53) were in breach 2020/21: 195 cases completed / 27% (53) were in breach 2021/22 -Q1- 59 cases completed / 8% (5) were in breach -Q2 - 42 cases completed / 5% (2) were in breach -Q3 - 52 cases completed / 17% (9) were in breach -Q4 - 54 cases completed / 19% (10) were in breach 2022/23 -Q1- 59 cases completed / 17% (10) were in breach -Q2 - 37 cases completed / 22% (8) were in breach		
Possible effect and wider implications			- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from beneficiaries, particular given sensitivity of cases. - Potential for there to be an impact on CPF reputation.		
Actions taken to rectify breach			- Further training of team - Review of process to improve outcome - Recruitment of additional, more experienced staff. 3/6/19 - Review of staff resources now complete and new posts filled. 3/2/20 - Training of additional staff now complete. 18/8/21 - Further work completed identifying where the delay fell e.g. request or receipt of information to facilitate the calculation of benefits, and action taken to improve these issues. 31/10/2022 - Due to pressures of other processes and vacancies within the team, key staff responsible for this process are stretched. Vacancies advertised, shortlisting and interviews planned within coming weeks.		
Outstanding actions (if any)			31/10/2022 - Recruit to vacant positions		
Assessment of breach and brief summary of rationale			31/10/2022 - Progress within this area has slowed down. Number in breach has increased so assessment to remain amber.		
Reported to tPR			No		

Ref	A20		**Date entered in register**		03/02/2021
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		Members not entered into LGPS		**Owner**	KW
Party which caused the breach			Aura		
Description and cause of breach			Number of employees entered into the Peoples' Pension, rather than the LGPS, by their employer. Some employees did opt out of Peoples' Pension.		
Category affected			Active members		
Numbers affected			18 employees		

Possible effect and wider implications	- As a result the employees may have less valuable pension rights, and so LGPS membership will need to be applied retrospectively. - Unclear if the employees who opted out, would have also opted out of the LGPS. - LGPS Contributions will need to be collected from employer and employee/employer contributions paid into Clwyd Pension Fund in relation to retrospective period. - Employer will need to liaise with Peoples' Pension to reverse membership there.
Actions taken to rectify breach	3/2/2021 - Liaising with employer to determine how best to put employees back in correct position. Letters sent to members to explain 21/05/2021 - Regular meetings held with employer and have an action plan in place. Exact number of 18 members have now been identified. 14/10/2021 - All active members have been communicated with and next steps agreed. 14/02/2022 - CPF Pensions Administration Manager has been chasing for final cases to be resolved. 22/05/2022 - Employer requested figures from payroll department on multiple occasions. CPF Pension Administration Manager contacted payroll team leader requesting dates for completion of outstanding actions. 12/08/2022 - Financial figures have now been provided by payroll department to the employer. Letters to the four members that had left employment have been issued with a response date of the 16/9/22. 31/10/2022 - Communications with members now concluded, therefore refund of contributions requested by the employer to People's Pension. Contributions to be paid to CPF in November payroll and an APC to be set up for additional member contributions paid.
Outstanding actions (if any)	31/10/2022 Once confirmation of contributions being paid is received, APC accounts to be set up on members' records
Assessment of breach and brief summary of rationale	31/10/2022 - Nearly all actions complete. Breach to be closed once confirmation of outstanding contributions having been paid is received and APCs set up for members.
Reported to tPR	No

Ref	A22	**Date entered in register**		21/05/2021
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Members not entered into LGPS		**Owner**	KW
Party which caused the breach	Glyndwr			
Description and cause of breach	Number of employees entered into alternative pension schemes, rather than the LGPS, by Glyndwr.			
Category affected	Active members			
Numbers affected	6 employees			
Possible effect and wider implications	- As a result the employees may have less valuable pension rights, and so LGPS membership will need to be applied retrospectively. - LGPS Contributions will need to be collected from employer and employee/employer contributions paid into Clwyd Pension Fund in relation to retrospective period. - Employer will need to liaise with alternative provider to reverse membership there.			
Actions taken to rectify breach	21/05/2021- Liaising with employer to determine how best to put employees back in correct position and detailed plan of actions has been developed. Letters sent to members to explain 14/10/2021 - Letter to 5 outstanding employees requesting confirmation of next steps issued with close date of 31/10/21. 14/2/2022 - Employer being chased by CPF. 22/05/2022 - CPF continuing to work with employer to resolve individual cases once employee responds with preferred action. Three outstanding cases remain. 12/08/2022 - As above, two outstanding cases remain. 31/10/2022 - All employees have now responded. Breakdown of contributions received by employer and member records to be amended.			
Outstanding actions (if any)	31/10/2022 Member records to be amended and contributions to be paid into fund.			
Assessment of breach and brief	31/10/2022 - Breach will be closed when contributions paid and records updated.			
Reported to tPR	No			

Ref	A23	**Date entered in register**		21/05/2021
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Incorrect member contributions paid		**Owner**	KW
Party which caused the breach	Aura			

Description and cause of breach	When employees are stepping up from their substantive post to higher graded post, incorrect employee and employer contributions have been made. This is due to an incorrect recording on the payroll system.
Category affected	Active and Deferred
Numbers affected	20 current and previous employees
Possible effect and wider implications	- As a result the employees may have less valuable pension rights, and so LGPS CARE pay and contributions will need to be checked and difference in contributions paid retrospectively. - LGPS Contributions will need to be collected from employer, and employee/employer contributions paid into Clwyd Pension Fund in relation to retrospective period.
Actions taken to rectify breach	21/05/2021- Process has been updated to ensure correct contributions/CARE pay going forward. - Liaising with employer to determine how best to put employees back in correct position retrospectively and letters to be sent to members to explain. 14/10/2021 Current employees contacted and all have agreed to pay outstanding contributions/payment plans agreed. 14/02/2022 - CPF Pensions Administration Manager has been chasing for final cases to be resolved. 22/05/2022 - Employer and Payroll provider being chased by CPF. Escalated to Payroll Team Leader. 12/08/2022 - Financial figures have now been provided by payroll department to the employer. Letters to the nine members that have left employment have been issued with a response date of the 16/9/22. 31/10/2022 - One member has now paid the difference in contributions and eight remaining are still due. Employer contributions to be paid in November.
Outstanding actions (if any)	31/10/2022 - Employer to pay outstanding contributions and determine how outstanding employee contributions are to be paid.
Assessment of breach and brief summary of rationale	31/10/2022 - Nearly all actions complete. Breach to be closed once confirmation of outstanding contributions having been paid is received.
Reported to tPR	No

Ref	A24	**Date entered in register**			22/05/2022
Status	Closed	**Date breached closed (if relevant)**			31/10/2022
Title of Breach		Individuals not offered membership of the scheme		**Owner**	KW
Party which caused the breach		Employer			
Description and cause of breach		Breach of Disclosure Regulations to a number of individuals who were not given the relevant paperwork to opt-in to the LGPS upon appointment in 2008.			
Category affected		Active members			
Numbers affected		A small number but total not yet known (expected to be less than 50)			
Possible effect and wider implications		- As a result the members may have less valuable pension rights, and so LGPS membership will need to be offered retrospectively to the affected members. - If any choose to proceed with retrospective membership, LGPS contributions will need to be collected from the members and then employee/employer contributions paid into Clwyd Pension Fund in relation to retrospective period.			
Actions taken to rectify breach		22/05/2022 Been liaising with employer to determine how best to proceed and develop a detailed plan of actions. 31/10/2022 Employer dealing with cases on a one to one basis and other than that, they will not be taking further action at this point.			
Outstanding actions (if any)		22/05/2022 - If appropriate, relevant process and forms to be completed by all parties to confirm membership in CPF, payment of arrears of contributions to be made and pensions system to be updated reflecting correct membership. 12/08/2022 - waiting update from employer on action being taken.			
Assessment of breach and brief summary of rationale		31/10/2022 Breach remains amber given employer dealing with on a case by case basis, but as no further action is being taken for now, breach has been closed			
Reported to tPR		No			

Ref	A25	**Date entered in register**	12/08/2022
Status	Open	**Date breached closed (if relevant)**	

Title of Breach	Members entered into LGPS in error	**Owner**	KW
Party which caused the breach	Employer		
Description and cause of breach	Number of employees entered into LGPS by employer instead of alternative pension schemes.		
Category affected	Active members		
Numbers affected	18 employees		
Possible effect and wider implications	- As a result the employees may have different pension rights, and so LGPS membership will need to be deleted and membership to correct scheme applied retrospectively. - LGPS Contributions will need to be collected and returned to employer and employee/employer Contributions paid into the correct scheme in relation to retrospective period. - employer will need to liaise with alternative provider to create membership there.		
Actions taken to rectify breach	12/08/2022- Liaising with employer and finance department to determine how best to put employees in correct position and detailed plan of actions is being developed.		
Outstanding actions (if any)	12/08/2022 - Detailed plan of specific actions to be developed.		
Assessment of breach and brief summary of rationale	12/08/2022 - Although relatively small number of employees affected, there is a number of stages required to resolve issue and members are currently unaware of the situation.		
Reported to tPR	No		

Ref	F84	**Date entered in register**	26 Jul 2022
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	No submission of contribution remittance advice	**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)		
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June 2022 were not received within the deadline and no remittance advice was received. Multiple breaches between 2019 and Feb 2022 (21 breaches in total). Previous breach in 22/23 is F82.		
Category affected	Active members and employer		
Numbers affected	1 active member		
Possible effect and wider	Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach	- 26/07/22 emailed Employer to request remittance		
Outstanding actions (if any)	07/11/2022 - Escalating within CPF to consider next steps given there have now been a series of breaches since this one.		
Assessment of breach and brief summary of rationale	07/11/2022 Remmittance still outstanding although subsequent ones have been received, and so will keep as amber.		
Reported to tPR	No		

Ref	F85	**Date entered in register**	23 Aug 2022
Status	Closed	**Date breached closed (if relevant)**	30 Aug 2022
Title of Breach	Late payment of contributions	**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)		
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to July 2022 were not received within the deadline. Multiple breaches between 2019 and Feb 2022 (21 breaches in total). Previous breaches in 22/23 is F83.		
Category affected	Active members and employer		
Numbers affected	1 active member		
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.		
Actions taken to rectify breach	- 23/08/22 emailed Employer to request payment - 7/11/22 Reminder email sent.		

Outstanding actions (if any)	
Assessment of breach and brief	Payment received 30/08/2022
Reported to tPR	

Ref	F86	**Date entered in register**			23 Aug 2022
Status	Closed	**Date breached closed (if relevant)**			31 Aug 2022
Title of Breach	No submission of contribution remittance advice			**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)				
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to July 2022 were not received within the deadline and no remittance advice was received. Multiple breaches between 2019 and Feb 2022 (21 breaches in total). Previous breaches in 22/23 are F82, F84.				
Category affected	Active members and employer				
Numbers affected	1 active member				
Possible effect and wider	Unable to verify information being paid or reconcile with member year end information.				
Actions taken to rectify breach	- 23/08/22 emailed Employer to request remittance				
Outstanding actions (if any)					
Assessment of breach and brief	Remittance received 31/08/2022				
Reported to tPR					

Ref	F87	**Date entered in register**			22 Sep 2022
Status	Closed	**Date breached closed (if relevant)**			23 Sep 2022
Title of Breach	Late payment of contributions			**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)				
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to August 2022 were not received within the deadline. Multiple breaches between 2019 and Feb 2022 (21 breaches in total). Previous breaches in 22/23 are F83, F85.				
Category affected	Active members and employer				
Numbers affected	1 active member				
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.				
Actions taken to rectify breach	- 22/09/22 emailed Employer to request payment				
Outstanding actions (if any)					
Assessment of breach and brief	Payment received 23/09/2022				
Reported to tPR					

Ref	F88	**Date entered in register**			22 Sep 2022
Status	Closed	**Date breached closed (if relevant)**			24 Sep 2022
Title of Breach	No submission of contribution remittance advice			**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)				
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to August 2022 were not received within the deadline and no remittance advice was received. Multiple breaches between 2019 and Feb 2022 (21 breaches in total). Previous breaches in 22/23 are F82, F84, F86.				
Category affected	Active members and employer				
Numbers affected	1 active member				
Possible effect and wider	Unable to verify information being paid or reconcile with member year end information.				

Actions taken to rectify breach	- 22/09/22 emailed Employer to request remittance
Outstanding actions (if any)	
Assessment of breach and brief	Remittance received 24/09/2022
Reported to tPR	

Ref	F89	**Date entered in register**			25 Oct 2022
Status	Open	**Date breached closed (if relevant)**			
Title of Breach	No submission of contribution remittance advice			**Owner**	DF
Party which caused the breach	Hafan Deg (K L Care Ltd)				
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to September 2022 were received within the deadline but no remittance advice was received. Multiple breaches between 2019 and Feb 2022 (21 breaches in total). Previous breaches in 22/23 are F82, F84, F86, F88.				
Category affected	Active members and employer				
Numbers affected	1 active member				
Possible effect and wider	Unable to verify information being paid or reconcile with member year end information.				
Actions taken to rectify breach	- 25/10/22 emailed Employer to request remittance - 7/11/22 emailed a reminder to employer				
Outstanding actions (if any)	07/11/2022 - Escalating within CPF to consider next steps given there have now been a series of breaches the June remittance failure.				
Assessment of breach and brief summary of rationale	Although remittance is still outstanding, they have tended to respond quite quickly to other requests so will remain as amber for now.				
Reported to tPR					

Ref	F90	**Date entered in register**			25 Oct 2022
Status	Closed	**Date breached closed (if relevant)**			31 Oct 2022
Title of Breach	No submission of contribution remittance advice			**Owner**	DF
Party which caused the breach	Flintshire County Council				
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to September 2022 were received within the deadline but no remittance advice was received. Previous breaches F67 (for April 2022) and F28 (for April 2020).				
Category affected	Active members and employer				
Numbers affected	5,318 active members				
Possible effect and wider	Unable to verify information being paid or reconcile with member year end information.				
Actions taken to rectify breach	- 25/10/22 emailed Employer to request remittance				
Outstanding actions (if any)					
Assessment of breach and brief	Remittance received 31/10/2022				
Reported to tPR					

Ref	F91	**Date entered in register**			25 Oct 2022
Status	Closed	**Date breached closed (if relevant)**			31 Oct 2022
Title of Breach	No submission of contribution remittance advice			**Owner**	DF
Party which caused the breach	Aura (Leisure and Libraries)				

Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to September 2022 were received within the deadline but no remittance advice was received. (FCC provide payroll services). Previous breaches F68 (for April 2022) and F29 (for April 2020).
Category affected	Active members and employer
Numbers affected	167 active members
Possible effect and wider	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- 25/10/22 emailed Employer to request remittance
Outstanding actions (if any)	
Assessment of breach and brief	Remittance received 31/10/2022
Reported to tPR	

Ref	F92	**Date entered in register**			25 Oct 2022
Status	Closed	**Date breached closed (if relevant)**			31 Oct 2022
Title of Breach	No submission of contribution remittance advice			**Owner**	DF
Party which caused the breach	Newydd Catering and Cleaning				
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to September 2022 were received within the deadline but no remittance advice was received. (FCC provide payroll services). Previous breaches F69 (for April 2022) and F30 (for April 2020).				
Category affected	Active members and employer				
Numbers affected	244 active members				
Possible effect and wider	Unable to verify information being paid or reconcile with member year end information.				
Actions taken to rectify breach	- 25/10/22 emailed Employer to request remittance				
Outstanding actions (if any)					
Assessment of breach and brief	Remittance received 31/10/2022				
Reported to tPR					

CLWYD PENSION FUND - CALENDAR OF EVENTS

Month	Date	Day	Committee	Other Events	Pension Board	Location
2022						
Nov						
	23-Nov	Wed	9.30am - 12.30pm			Virtual
Dec						
	13-Dec	Tues		AJCM		Virtual
2023						
Jan						
Feb						
	15-Feb	Wed	9.30am - 12.30pm			TBC
Mar						
	01-Mar	Wed			9.30am - 2pm	TBC
	29-Mar	Wed	9.30am - 12.30pm			TBC
Apr						
May						
Jun						
	21-Jun	Wed	9.30am - 12.30pm			TBC
	27-Jun	Tues			9.30am - 2pm	TBC

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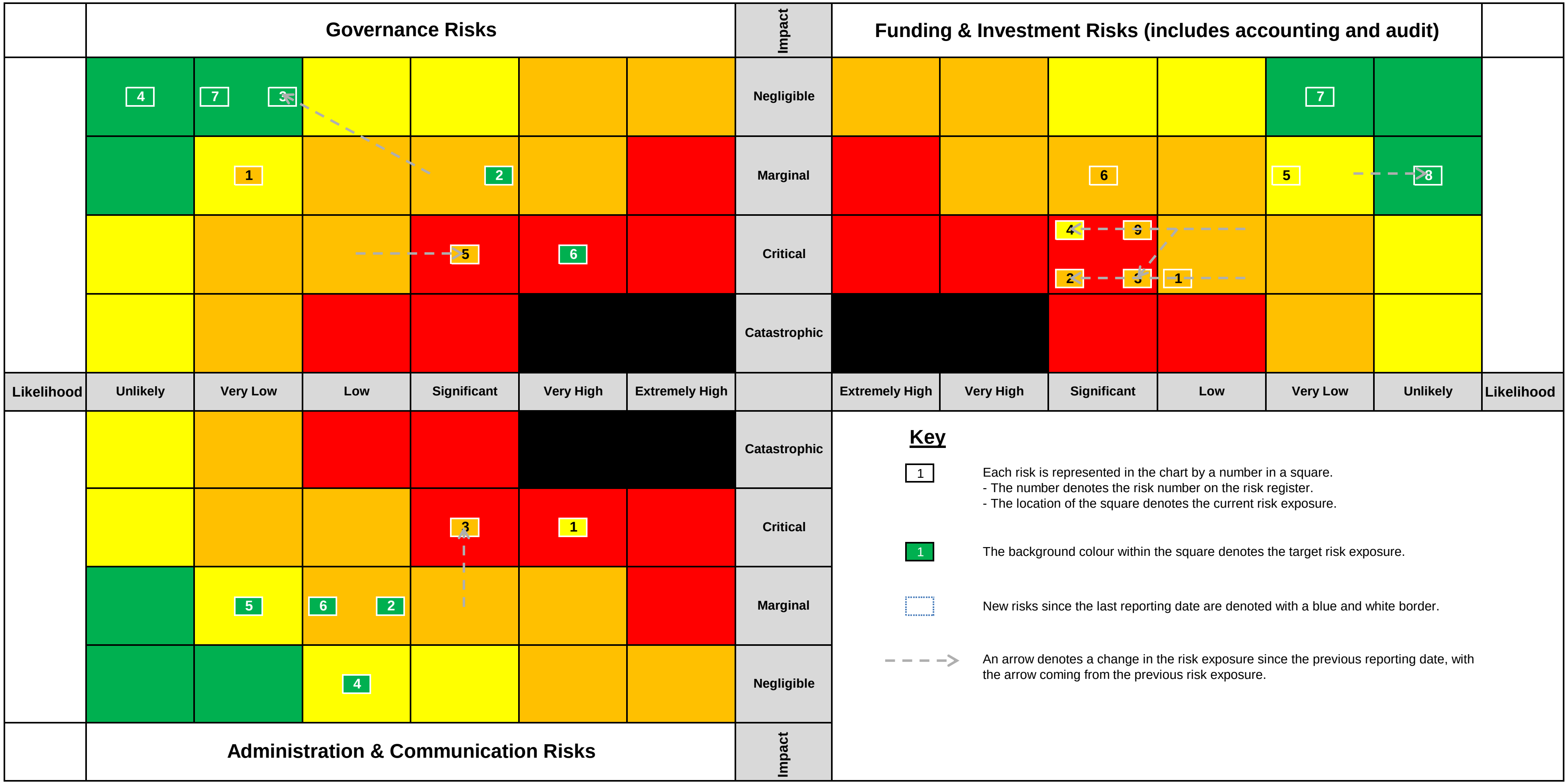
All Fund Risk Heat Map and Summary of Governance Risks



11 November 2022

Clwyd Pension Fund - Control Risk Register

Governance Risks

Objectives extracted from Governance Policy (02/2020), Knowledge and Skills Policy (09/2021) and Procedures for Reporting Breaches of the Law (03/2022)

G1 Act in the best interests of the Fund's members and employers
G2 Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
G3 Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
G4 Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
G5 Understand and monitor risk
G6 Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
G7 Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
T1 Ensure that the Clwyd Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape.
T2 Those persons responsible for governing the Clwyd Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.
B1 Ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report.
B2 Assist in providing an early warning of possible malpractice and reduce risk.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?		Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other detrimental impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Very Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low		☺					Head of CPF	31/01/2023	09/11/2022
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Marginal	Significant		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Knowledge and Skills Policy, plan, monitoring (regular self assessments) and induction training in place for PFC and PB members based on CIPFA Code/Framework 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PFC, PB and officers in their responsibilities, with formal Advisory Panel 6 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed 7 - Different categories of Committee and Board members have different end of term dates, to ensure continuity 8 - Approved schedule of officer delegations, including ability for urgent matters to be agreed outside of formal Committee (involving Chair of PFC) 9 - PFC, PB, AP, training etc taking place virtually whilst face to face meetings are not possible 10 - PFC and PB effectiveness surveys completed to ensure that PFC and PB meetings are as effective as possible	Negligible	Very Low		😐	Current impact 1 too high Current likelihood 2 too high	05/05/2022	Feb 2023	1- Induction training for new members to be completed (PL) 2 - Carry out training needs analysis after induction training (PL)	Head of CPF	31/01/2023	09/11/2022
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low		1 - CPF Conflicts of Interest Policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Knowledge and Skills Policy, Plan, monitoring (regular self assessments) and induction training in place for PFC and PB members including training on fiduciary responsibility and the CPF Conflicts Policy 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PFC, PB and officers in their responsibilities, with formal Advisory Panel 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility 7 - WPP Conflicts of Interests Policy in place	Negligible	Very Low		☺				1 - Ensure appropriate due diligence process for investments with potential conflict (Welsh or local) (PL)	Head of CPF	31/01/2023	09/11/2022
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Unlikely		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		☺					Dep. Head of CPF	31/01/2023	09/11/2022
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such as scheme change (e.g. McCloud, potential exit cap, Pensions dashboard, national reorganisation, cybercrime, Covid-19, asset pooling, levelling up and boycotts / divestments / sanctions/ Link contract with WPP)	G1 / G4 / G6 / G7	Critical	Significant		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 3 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 4 - Asset pooling IAA in place 5 - Officers on Wales Pool OWG, and Pension Board Chair attending WPP LPB Chair meetings 6 - Business Continuity and Cyber Security Policy in place 7 - Ongoing monitoring of cybercrime risk by AP 8 - McCloud planning undertaken and full programme management in place	Marginal	Low		😐	Current impact 1 too high Current likelihood 1 too high	28/02/2017	Mar 2024	1 - Deliver final aspects of cybercrime risk mitigations into BAU (PL) 2 - Refresh and document business continuity assessments/ procedures (KW) 3 - Establish formal project for Pensions Dashboard (KW) 4 - Ongoing engagement with WPP on how Link risk is being managed	Head of CPF	31/01/2023	09/11/2022
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Critical	Very High		1 - Fundamental review of succession planning and resources carried out over 2017 to 2020 and new structures put in place 2 - Ongoing task/SLA reporting to management AP/PFC/PB to quickly identify issues 3 - Quarterly update reports consider resourcing matters 4 - Consultants provide back up when required 5 - Additional resources, such as outsourcing, considered as part of business plan 6 - Impact of potential or actual Covid absences being discussed regularly ensuring priority work continues unaffected 7 - Resourcing regularly considered as part of major projects (e.g. McCloud)	Negligible	Very Low		☹	Current impact 2 too high Current likelihood 3 too high	01/07/2016	May 2023	1 - Recruit to vacant governance, administration, business, Fund accountant and Trainee Fund accountant roles. (PL) 2 - Ongoing consideration of business continuity including succession planning (PL) 3- Action plan being developed for recruitment, retention, succession planning including consideration of future work levels(PL)	Head of CPF	31/01/2023	09/11/2022
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Negligible	Very Low		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Knowledge and Skills policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns 10 - Outstanding actions relating to TPR Code reviewed regularly	Negligible	Very Low		☺				1 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF) 2 - Finalise induction training with new members on breaches recording/reporting procedures (PL)	Head of CPF	31/01/2023	09/11/2022

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 23rd November 2022
Report Subject	Administration and Communications Update
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

An administration and communications update is on each quarterly Committee agenda and includes a number of administration and communications related items for information or discussion. The last update report was provided at the August Committee meeting, therefore this update report includes matters since that date.

This update includes matters that are mainly for noting, albeit comments are clearly welcome.

The report includes updates on:

- The Fund's new logo, which is hoped to go live in April 2023
- Current Developments and News – this includes updates relating to the increase of deferred members becoming eligible to take their benefits and the requirement to recalculate benefits due to the back dated pay award.
- Day to day tasks and key performance indicators – showing the position to the end of October 2022. This highlights some concerns about increases in workloads and the impact on service levels.
- Resource - including an update on recruitment and retention and the recent movement within the Administration Team.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.

REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS
	Business Plan 2022/23 Update
1.01	Progress against the business plan items for quarter two of this year is positive for the majority of items with some areas not yet due as illustrated in Appendix 1. Key items to note relating to this quarter's work are as follows: • A2 – McCloud judgement – as usual an update on this programme is included later in this report. • A3 – National Pensions Dashboard – Work on this item is now underway to ensure accurate member data in preparation for on-boarding to the dashboard within agreed national timescales. The Pensions Administration Manager continues to attend regular meetings with both Heywood and the Pension and Lifetime Savings Association (PLSA) as part of a project team • A6 – Review Policies and Strategies/Develop and implement a refreshed communications strategy – A review of the Scheme Pays and Discretions Policies has commenced and will be considered and approved under the appropriate delegation prior to the next committee meeting. This is later than planned due to workloads. • A7 – Review pensioner existence checking – The Fraud Policy development has commenced and will be brought to February committee for consideration. This is later than planned due to prioritising business for the Committee. • A8 – Conduct appropriate procurement and implementation (if necessary) for CPF administration system – Please see the update for this item in the Supplier Contracts Report included in part 2 of the agenda. • A9 - Develop and implement a refreshed communications strategy – The procurement of an on-line survey provider to facilitate the completion of member satisfaction surveys is in the final stages. Satisfaction survey questions have been agreed and will be issued to members according to their communication preference in Q3. A focus group can then be established to plan future communications to members. An update on the Fund's new logo is included later in this report. Although good progress is being made, as mentioned previously some of the elements of the plan are running behind schedule due to delays earlier in the year in recruiting a new Communications Officer. • A10 – Trivial Commutation – Work is underway to identify those pensioner members that have a pension pot with a value of less than £10,000 and may be eligible to commute their pension into a one-off lump sum payment. This is a lower priority project and will be picked up as and when resource allows. E1 – McCloud Employer Liaison Team (ELT) Services – Work continues to progress with employers to ensure the provision of data is as efficient and accurate as possible.

1.02	**Current Developments and News** The following details developments and news in addition to business as usual *McCloud update* CPF Programme Update - An update on the progress of the Clwyd Pension Fund McCloud programme is attached as Appendix 2. The programme currently has an overall health status of green, meaning that it is largely on track. The McCloud Team are continuing to engage and work with employers regarding the submission of their data. The process to validate the data has now been agreed and approved by the Programme Management Group (PMG) and is now a regular agenda item for the data work stream meetings to ensure the process is reviewed regularly and remains stringent and fit for purpose. McCloud Regulatory Update - The minutes of the September 2022 Local Government Pension Scheme (LGPS) Communications Working Group meeting report that the Department for Levelling Up, Housing and Communities (DLUHC) response to the 2020 consultation on draft regulations to implement the *McCloud* remedy in the LGPS is now expected *"early in 2023 rather than autumn this year"*. We have since heard from DLUHC that the consultation response is expected by the end of 2022, with a consultation on draft regulations to follow in early 2023. It is anticipated that this will have a knock-on effect on other steps and timings detailed in previous updates albeit the McCloud Programme will continue as normal until further clarification is received.
1.03	*Other updates* • The data cleansing required as part of the triennial valuation process will stand the Fund in good stead for the preparation of Pension Dashboard. The Pension Administration Manager and a number of Team Leaders have met with Heywood (pension software provider) and Aon to start the process of ensuring the Fund will be ready for on-boarding onto the dashboard. As discussed in the training session at the last Committee meeting, this will be a lengthy process and timely planning will be crucial to the success of the project. • The Operations team continues to process the re-calculation of benefits due to the retrospective pay award for 2021/2022 whilst preparing for the additional work in relation to the 2022/2023 pay award which has now been confirmed. One Council participating in the Fund will automatically provide arrears of pay for those who have since left employment, whereas the others will not. This most recent pay award equates to a much higher percentage of pay for some members. and it is anticipated that the number of requests for re-calculation of benefits will be significantly higher than those for last year. Already the known expected cases numbers are over 1,100 (compared to the 2021 pay award which was just over 200). This will impact mostly on the retirement team, having a knock-on effect on the number of actual retirements that can be calculated and paid within legal timescales. • As previously reported, the number of deferred members reaching age 60 and deciding to take their benefits continues to increase. Following some initial analysis of data within the Fund, the Pension

	Administration Manager has requested that Mercers assist with identifying if this trend is likely to continue and if so for how long. As Mercer have access to all data relating to previous valuations it is hoped that any potential trends and increase in workload will be easily identifiable. The outcome of the review will determine if resource levels are adequate within the Operations Team. Further monitoring will continue and an update will be provided at future Committee meetings. • ELT are also being impacted by both of the previous points as they prepare scheme member leaver notices on behalf of Flintshire County Council and Wrexham County Borough Council. The team are particularly mindful of pressures on employers relating to the 2022 back dated pay award and are engaging with them to ensure timescales continue to be met and offering assistance if required. The resourcing of the ELT is also being monitored as workloads increase. Additional payroll system user accounts have been approved with one of the employers allowing more ELT officers access to the required data.
1.04	**Policy and Strategy Implementation and Monitoring** *Administration Strategy* The latest monitoring information in relation to administration is outlined below: Day to day cases – Appendix 3 provides the analysis of the numbers of cases received and completed on a monthly basis up to and including October 2022 since April 2019 as well as how this is split in relation to the three unitary authorities and all other employers. The number of cases completed by the team during August, September and October was 8,552 compared to 7,731 in the same reporting period last year. The number of incoming cases was 9,171 compared to 9,210 for the same period; the 9,210 however included a backlog of new starter notifications. Prolonged staff vacancies due to difficulties in recruiting and ever-increasing workloads in addition to external factors (such as back dated pay awards and Pension Dashboard) is having an impact on the ability to reduce the number of open cases. The number of open cases has increased from 5,290 at the end of July to 5,878 at the end of October.
1.05	Key performance indicators – Appendix 4 shows our performance against the KPIs that are measured on a monthly basis up to and including October 2022. The summary reports illustrate the number of cases that have been completed over either 3 months or 12 months, as well as the proportion completed within the agreed KPI target timescales. On average the number of completed joiner, leaver and retirement cases has increased over the last three months and as mentioned earlier the number of received cases is generally higher compared to the previous 12 months. However, there has been an improvement to the number of these types of cases completed within the legal timescales over 12 months. The key processes that cause some concern over the last three months are retirements, retirement quotations and deaths, albeit refunds and deferred benefits could also benefit from improvement with some of the KPI measures. Resource is being reviewed as a priority going forward as

	the same staff members are responsible for four of these key areas, as well as recalculations relating to the retrospective pay awards. • The number of retirements completed in the three month period has remained consistent along with the number not meeting the KPI standard. It is worth noting that there is also a high number of retirements that remain outstanding and once completed will have a negative impact on the figures reported. • The number of quotations completed in the three month period has decreased due to the priority for staff being the calculation and payment of retirement benefits. • The death KPI has remained consistent with the previous quarter. Further training has been given in this area to replace the member of staff that has left but this area still remains vulnerable to pressures from the number of outstanding retirements. • The deferred benefits KPI for the last three months is very similar to the previous quarter but it remains below our target. These are processed by the same team that deal with retirements, quotations and deaths. Deferred benefit calculations have been given lower priority as there is no legal time limit to award the deferred benefit and they tend to have less impact on members than the other processes. The numbers relating to recalculations due to pay awards are **not** included in the KPIs. In relation to refunds of contributions, these are dealt with by a different team. The KPIs for these are good in relation to the CPF turnaround time but very poor in relation to the overall timescale. There is no legal deadline and as a result there has been less focus on processing these due to other priorities for that team including: • initial leaver calculations (called frozen refunds) • dealing with pensioner communication preference notifications and • queries following issuing a recent privacy notice. Most of this has now been dealt with and it is hoped to see some improvement in the next few months, albeit other priorities across the team will need to be considered. The retention and recruitment pressures are beginning to become evident in the case tracking and KPIs as can be seen from the graphs in Appendices 3 and 4. Staff members continue to work additional hours, if possible, and the priority for the Operations Team continues to be cases where a payment is made either to an individual or a third party. The management of challenging regulatory timescales for significant numbers of cases will continue to be difficult particularly as we approach the holiday season with less staff and/or new staff that require training. Resourcing is considered further later in this report.
1.06	**Internal dispute resolution procedures (IDRP)** The remaining IDRP case for 2019/2020 is now resolved. The member has lost their appeal concerning the tier of ill health retirement that they were awarded. In relation to the cases for 2021/2022:

	• There are seven Stage One appeals against employers. Three have been rejected, one has been upheld and three are still ongoing.
	  o Of the three that have been rejected or invalidated, one related to non-award of redundancy pension when the member believed they had been made redundant, one was for non-award of ill health retirement, and the third was an appeal made by a member who is not being permitted to work more than 2 years beyond their flexible retirement date.
	  o The appeal that was upheld was in relation to a member who was initially only awarded tier 3 ill health retirement. They have now been awarded tier 1 ill health retirement after going through the appeal process.
	  o The three outstanding appeals all relate to either non award of ill health retirement or the member disagreeing with the tier of ill health retirement awarded.
	• No Stage Two appeals were made during this scheme year.
	
	In relation to the cases for 2022/2023:
	• There are four Stage One appeals against employers. All of them relate to non-award of ill health retirement. Three of those appeals have been rejected and one of them is still ongoing.
	• There is one Stage Two appeal against the employer. This appeal is against the tier of ill health awarded. The appeal is still ongoing.

	2021/2022			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	7	1	3	3
Stage 1 - Against Administering Authority	0	0	0	0
Stage 2 - Against Employers	0	0	0	0
Stage 2 - Against Administering Authority	0	0	0	0
	2022/2023			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	4	0	3	1
Stage 1 - Against Administering Authority	0	0	0	0
Stage 2 - Against Employers	1	0	0	1
Stage 2 - Against Administering Authority	0	0	0	0

	There are no Clwyd Pension Fund cases that are currently with the Pensions Ombudsman.
1.07	*Communications Strategy* Following on from the approval of the new Communications Strategy earlier this year, the new Communications Officer has developed the Funds' new logo which is included in Appendix 5. The new logo symbolises connection, unity and protection. The Communications Team are now developing messaging and branding guidelines which will complement the use of the new logo. We hope to go live with the new logo and branding in April 2023, albeit it will be shared with the audience at the AJCM in early December.

	The Communications Team are also working towards producing various types of communication to further increase engagement with employers and scheme members. The following communications have been provided since the last update: • Twelve emails have been sent to all employers providing information in relation to various matters including updated ill health certificates, a copy of Penpal and annual benefit statement guidance notes and also information about LGA training videos in respect of a number of pay related topics. Employers were informed that there is a new page on our website outlining the retirement process and timescales for members to expect. Save the date emails have also been sent regarding the annual joint consultative meeting (AJCM) which will be held virtually on the 13 December. • Following on from the publication of the annual benefit statements in August a further 19 member 1-2-1 sessions have been completed taking the total to 135 so far this year either virtually or face to face. Going forward, the new Communication Strategy will be looking for alternative means of engaging with scheme members and explaining the content of the benefit statements and what options members have, rather than proactively advertising the availability of 1-2-1 sessions. However should a member request such a session this will, of course, be provided. • Training sessions have also been provided for a number of employers in relation to LGPS employer responsibilities including completing forms correctly, induction training for new staff members and TUPE.
1.08	Other key points in relation to communications include: • Approximately sixty Pension Saving Statements (PSS) were issued in October in accordance with regulations. The number of statements being issued is increasing year on year due to the annual allowance remaining at £40,000 for a number of years. The annual webinars to support members which are provided by a taxation specialist from Mercer have proved very popular again this year with additional dates having to be added to meet demand. • An updated privacy notice was provided to all members in-line with their communication preference along with a Member Self Service (MSS) promotion for those who have not already registered.
1.09	Appendix 6 provides an updated summary of MSS registered users, which illustrates that enrolment to MSS is levelling out with the total number of members that have registered remaining at just over 50% of the scheme membership. The number of members that have opted for paper correspondence has also remained quite static with approximately 16% of the scheme membership opting for this method of communication. As these results are only up to the end of September, it is hoped that the recent MSS promotion will have encouraged more members to register. This will be reported on in the next update.

	For those members that are registered, use of the facility continues to increase. During the two month reporting period: • 99 members have requested a retirement pack for their deferred benefit via MSS • the benefit projector continues to be a very popular function with 9,286 benefit projections having been calculated using MSS functionality • there have also been 344 changes to member's expression of wish details and 289 address updates.
1.10	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegations have been used since the last Committee.

2.00	**RESOURCE IMPLICATIONS**
2.01	Since the last update, the five positions (a mixture of full-time and part-time) across the Administration Team that had become vacant have been advertised with interviews planned shortly. These roles are in addition to the existing Pension Officer vacancy within the Employer Liaison Team and the temporary Pension Officer position within the McCloud Team. One of these positions has been successfully filled by utilising the FCC redeployment register and another position has been filled by an existing staff member increasing from part-time to full-time. At the time of writing there are five vacant posts. The Pensions Administration Manager continues to work closely with FCC HR department to effectively and efficiently complete the recruitment process. This has been quite labour intensive given the number and frequency of vacancies. As in the last update, it is proposed that any remaining vacant Pension Officer positions are recruited at the lower Pension Assistant grade where recruitment is likely to be easier, albeit it is recognised this will result in a greater level of training with the successful candidate(s). Staffing levels will be continuously reviewed within the Administration Team, and consideration given in relation to potential peaks in workload as the McCloud Programme progresses and due to other major projects, such as the National Pensions Dashboard, back–dated pay awards and the outcome of the review in relation to the number of deferred members reaching age 60 and deciding to take their benefits. In the short term, due to the obvious increase in current workloads, officers are considering whether additional temporary members of staff could be recruited should suitable candidates be identified. Longer term, putting in place a project team within the Administration Team is currently being considered as a potential solution to assist with

	peaks in workload whilst also ensuring that external factors and ad-hoc projects do not impact on business as usual.

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 7 provides the dashboard and the extract of administration and communications risks. The only risk with any key changes made to it since the August Committee is as follows: • Risk number 3 - Unable to meet legal and performance expectations due to big changes in employer numbers or scheme members or unexpected work increases. As described in this report, the 2022 backdated pay award will have a significant impact on workloads and it was therefore considered appropriate to increase the impact of this risk from Marginal to Critical. As mentioned previously options are being considered as to how best manage the ongoing increase in workloads including the possibility of recruiting temporary staff in the short term.
4.02	The key risks which are furthest from target relate to: • Risk number 1 - Unable to meet legal and performance expectations due to staff issues. • Risk number 2 - Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues. • Risk number 3 - Unable to meet legal and performance expectations due to big changes in employer numbers or scheme members or unexpected work increases. • Risk number 6 – Service provision is interrupted due to system failure or unavailability.

5.00	**APPENDICES**
5.01	Appendix 1 - Business Plan 2022-23 to 2024-25 Appendix 2 – McCloud Programme update report Appendix 3 – Analysis of cases received and completed Appendix 4 – Key Performance Indicators Appendix 5 – New Clwyd Pension Fund logo Appendix 6 – Member Self Service update Appendix 7 – Risk register update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Report to Pension Fund Committee – Pension Administration Strategy (March 2021)

	• Report to Pension Fund Committee – Communications Strategy (June 2022) • Report to Pension Fund Committee - 2022/23 Business Plan (March 2022) **Contact Officer:** Karen Williams, Pensions Administration Manager **Telephone:** 01352 702963 **E-mail:** karen.williams@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – 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) **PFC – 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) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DLUHC. (h) **DLUHC – Department of Levelling Up, Housing and Communities** – the government department responsible for the LGPS legislation.

Business Plan 2022/23 to 2024/25 – Q3 Update
Administration, Communications & Employer Liaison Team

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Administration (including Communications) and Employer Liaison

Team Tasks

Ref	Key Action – Task	2022/23 Period				Later Years	
		Q1	Q2	Q3	Q4	2023/ 24	2024/ 25
Essential Regulatory Driven Areas							
A1	Preparation of Member Data for Valuation and Funding Reviews	x	x				
A2	McCloud judgement	x	x	x	x	x	
A3	National Pensions Dashboard			x	x	x	
Priority Fund Driven Projects							
A6	Review Administration & Communications Related Policies and Strategies	x					x
A7	Review pensioner existence checking	x	x	x			
A8	Conduct appropriate procurement and implementation (if necessary) for CPF administration system	x	x	x	x	x	
A9	Develop and implement a refreshed communications strategy	x	x	x	x	x	x
Lower Priority Fund Driven Projects							
A10	Trivial Commutation			x	x	x	
Employer Liaison Team (ELT) Projects							
E1	McCloud ELT Services	x	x	x	x	x	

Administration, Communication and Employer Liaison Team Task Descriptions

Essential Regulatory Driven Areas

A1 – Preparation of Member Data for Valuation and Funding Reviews

What is it?

The triennial actuarial valuation as at 31 March 2022 requires the pension administration team to provide data to the actuary. This involves an additional year end cleansing exercise post 31 March 2022 to ensure the data is of sufficient quality for the valuation and to then rectify any anomalies discovered during the valuation process. The CPF data is expected to be more robust than in previous years due to ongoing work implementing i-Connect and dealing with backlogs. An interim valuation was completed during 2021/22 where some initial data validation has been completed already, which highlighted an area to investigate. As a result further work will be done working with employers to close down casual workers records where appropriate.

It is hoped that data can be submitted to the Fund actuary by early July with any data cleansing being investigated and responded to by 31 July 2022.

Timescales and Stages

Preparation of data for 31 March 2022 valuation	2022/23 Q1 to Q2
Investigating and responding to data queries from Fund Actuary	2022/23 Q2

Resource and Budget Implications

This will be carried out by the Technical Team in the main with assistance from the rest of the Operations Team depending on the requirements. All internal costs are being met from the existing budget. The work by the Fund Actuary is also included in proposed budget for 2022/23.

A2 – McCloud judgement

What is it?

The McCloud case has highlighted that the protections given to older members on the introduction of the new CARE schemes for Firefighters and Judges in April 2015 were unlawful age discrimination. This case impacts other public service pension schemes including the LGPS (where the new CARE scheme from April 2014 included a statutory underpin for older members). MHCLG (now DLUHC) issued a consultation setting out its proposals for implementing the McCloud judgement in the LGPS in July 2020. This focused on remedies which will result in changes to scheme benefits some of which will be retrospective. DLUHC's response to the consultation feedback is expected in Summer 2022, along with LGPS regulations. The primary legislation which will enable remedial changes to the LGPS is currently working its way through Parliament.

From an administrative perspective, the impact of the court case is expected to result in a change to how benefits are calculated for a large number of scheme members including members who have left. This is likely to significantly impact on administration processes and systems as well as requiring a robust communication exercise with employers and scheme members. The additional resource requirements are significant. Whilst regulations are awaited, the focus is on:

- ensuring any existing backlogs or data cleansing are cleared
- fast-tracking training within the team to ensure wider and more senior work knowledge across the existing team members
- collecting data required to calculate the statutory underpin

The Fund has established the McCloud programme to implement the remedy for Clwyd Pension Fund. This includes some team members who will be 100% dedicated to this work for the duration of the programme.

Timescales and Stages

Data collection from all employers (commenced during 2020/21)	By 31/05/2022
Validate data from all employers (commenced during 2020/21)	By 31/08/2022
Use of interface to upload data / data cleansing	2022/23 Q1 to Q3
Load all data onto Altair	By 31/12/2022
Final regulations come into force benefit recalculations can be made	Estimated 01/04/2023
Verifying impact on members and benefit recalculations	By 30/04/2023

Resource and Budget Implications

Although the work is being led and managed by a separate CPF McCloud programme team, it will impact across all of the Administration Team. An estimated allowance for additional resource has been included in the 2022/23 budget, which assumes 7.5 FTE internal posts, 2 of which are within ELT and therefore will be recharged to employers using that service. There are also additional costs relating to consultancy (including programme management which has been outsourced), incidentals such as postage and printing, and system costs. The budget for 2022/23 is £623k in total.

A3 – National Pensions Dashboard

What is it?

The Pensions Dashboard is a Government initiative first announced in the Budget 2016. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A consultation was undertaken by Government in early 2019 which sought views on the potential phasing of the introduction of the pensions dashboards as well as how the architecture, funding and governance arrangements would work. The Pension Schemes Act 2021 provides the legal framework for implementing the dashboard. A consultation on regulations closes on 13 March 2022 and these draft regulations include more detail on the requirements to participate in the Pension Dashboard for schemes and clarify that public sector pension schemes will be expected to initially onboard between October 2023 and April 2024. The Pensions Administration Manager is participating in a PLSA working group on the development of the Dashboard. The CPF has also volunteered to be part of the testing of the pension dashboard enhancements being integrated into the administration software.

Timescales and Stages

Development and testing of software (estimated)	2022/23 Q3 to Q4 and 2023/24
Likely launch period	2023/24

Resource and Budget Implications

Resource and budget implications cannot be fully determined until more detail is available. Additional budget may be necessary if work is to commence in 2022/23.

Priority Fund Driven Projects

A6 - Review Administration and Communication Related Policies and Strategies

What is it?

The CPF Administration Strategy was last approved at the May 2021 PFC and the CPF Communications Strategy was last approved at the September 2019 PFC. The strategies state that they will be reviewed at least once every three years to ensure they remain relevant and up to date. The Communications Strategy is undergoing a more fundamental review and that work is included in A9 below.

There are a number of other administration and communications related policies that also need to be reviewed regularly as shown in the table below.

Timescales and Stages

Review of Administration Strategy (last approved May 2021)	2024/25 Q1
Review of Communications Strategy (last approved September 2019)	2022/23 Q1
Review of Scheme Pays Policy (last approved April 2019)	2022/23 Q1
Review of Administering Authority Discretionary Policy (last approved April 2019)	2022/23 Q1
Review of Under / Overpayment Policy (approved September 2021)	2024/25 Q2
Personal Data Retention Policy (assuming reviewed March 2022)	2024/25 Q4
Policy for Administration and Communications of Tax Allowances to Scheme Members (new policy – assuming approved March 2022)	2024/25 Q4

Resource and Budget Implications

This will be led by the Pensions Administration Manager. All costs are being met from the existing budget other than the review of the Communications Strategy where Aon's costs are included within the budget for 2022/23.

A7 – Review pensioner existence checking

What is it?

When a scheme member retires, a pension is put into payment following the retirement process being completed. Dependants' pensions are often paid following the death of a pensioner. These pensions are paid continually until the Fund is notified of the pensioner's/dependant's death which could be by a relative, executor or another via another source, such as TellUsOnce or the member's bank. As the Fund relies on notification of the pensioner's/dependant's death, there is a chance that pension payments could continue in error where the pensioner's/dependant's death is not notified or identified in a timely manner, either unintentionally or as a result of fraud from a person connected to the pensioner/dependant. Whilst the Fund is confident that adequate reporting procedures are in place for UK residents through the National Fraud Initiative (NFI) and monthly mortality reporting via ATMOS, it is important that from time to time the Fund verifies that all overseas pensioners or dependants currently receiving a pension are still alive so that pensions for any person who cannot be verified do not continue to be paid. This exercise was last conducted in 2014 using a paper based verification exercise for all pensioner/dependants. There are now more efficient and effective ways to carry out pensioner existence checking through specialist providers. It is planned to review the appropriateness of the current processes in place to manage fraud in the event of death of pensioners/dependants, and put in place a fraud policy. This is likely to result in an additional process for overseas members by procuring an external provider to assist in pensioner existence screening (known as mortality screening).

Timescales and Stages

Review current processes and develop Fraud Policy	2022/23 Q1 to 3
Procurement of an external provider to assist with mortality screening	2022/23 Q1 to 2

Resource and Budget Implications

To be led by Pension Administration Manager and Principal Pensions Officer - Technical. All internal costs are being met from the existing budget albeit there will be additional costs relating to the external provider which are not yet known – an allowance of £5k has been included in 2022/23 for this.

A8 - Conduct appropriate procurement and implementation (if necessary) for CPF administration system

What is it?

The Fund has a rolling one-year contract with Heywood Pension Technology in relation to their Altair administration system. It has not been subject to a full review through tender for a number of years and it would be good practice to carry this out in the near future. However, due to significant projects involving the administration system (e.g. 2019 actuarial valuation, implementing i-Connect and scheme/GMP reconciliation) and to tie in with end dates of existing add-on modules within Altair, it was agreed to defer this. Between 2019 and 2021 CPF worked with other founder authorities to develop a national framework for LGPS administration systems. Now that the framework is in place, it will be used for the Fund to carry out their own tender for an administration system. Should a new software supplier be appointed, there will be a significant amount of work required to migrate to the new system.

Timescales and Stages

Conduct appropriate procurement for CPF administration system	2022/23 Q1 to Q3
Transition to new administration system if required	2022/23 Q4 to 2023/24

Resource and Budget Implications

To be led by Pension Administration Manager and Principal Pensions Officer - Technical. The current year system costs will be higher than 2021/22 if the existing provider is maintained due to license fees. This has been incorporated into the existing budget as the minimum costs this year. If transition to a new system is required, there are likely to be significant transition costs and the ongoing cost of systems included in the budget will need to be increased appropriately.

A9 – Develop and implement a refreshed communications strategy

What is it?

Fund members often have questions, need information or require a process to be completed by the Fund; this can equally apply to the Fund's employers. For Fund members, these points of engagement are the key time to increase awareness of the benefits of the Fund and how it works, encourage members to take ownership of their pension and maintain and build positive member experiences wherever they are on their journey. They rely on efficient processes and data coming from employers and the Fund can also enhance efficiency through better use of technology in its communications.

The initial elements of this project will focus on communications with scheme members and will involve:

- Research into member preferences and effectiveness of new communications through focus groups, revised member/employer surveys and a review group to test proposed new communications.
- Creating a communication plan that ensures communication reaches members at the moments that matter to them, which will require a new approach such as segmenting

communication by age and focussing on more visual and shorter digital communications.

- Developing messaging and branding for consistent use in all Fund communications ensuring all communications are recognisable, understandable, and accessible for scheme members, employers and other stakeholders.
- Creating a visual roadmap showing members 'moments that matter' to help them understand the value of their pensions and take key decisions.
- Developing a range of videos/webcasts (for loading on the Fund's website) for employers and scheme members relating to various subject matters.
- Reviewing the structure and content of the Fund's website.
- Driving greater use of online services, such as Member Self-Service, through phased promotion exercises and continuing to develop the range of online processes that are available.
- Continuing to focus on collecting email addresses through redesigning of all forms.
- Measuring against a new Fund's communications efficiency objective through monitoring time spent on member 1-2-1s and phone calls for all Administration Team members.

Any changes to how we engage with employers and other stakeholders, in line with the new Communications Strategy, will be considered in 2023/24.

Timescales and Stages

Approve revised Communications Strategy (as per A6 above)	2022/23 Q1
Recruit new Communications Officer	By 2022/23 Q1
Run focus groups and establish test review group for new communications and plan approach to annual surveys (and run first survey)	2022/23 Q1 & Q2
Create a new communication plan	2022/23 Q2 & Q3
Develop messaging and branding guidelines	2022/23 Q1 & Q2
Review the structure and content of the Fund's website	2022/23 Q1 to Q3
Develop initial phase of videos and webcasts for the website	2022/23 Q1 to Q4
Drive greater use of MSS through promotion exercises and develop ongoing plan for promotion	2022/23 Q1 to Q4
Continue to develop the range of online processes	2022/23 Q1 to Q4
Finalise redesign of forms to collect email addresses	2022/23 Q1 to Q4
Ongoing development and delivery of communications relating to new communication plan	2022/23 to 2024/25
Measure efficiency improvements through logging 1-2-1s and telephone calls	2022/23 to 2024/25
Create and deliver a visual roadmap (the journey to retirement)	2023/24
Consider engagement with employers and other stakeholders	2023/24

Resource and Budget Implications

These projects involve a mix of the various teams within the Administration Team with external support from Aon. Internal costs are being met from the existing budget and external consultancy costs are included within Aon's budget for 2022/23. The ability to deliver on these areas to these timescales may depend on resourcing within the Administration Team and in particular whether and when the vacant Communications Officer post is filled.

Lower Priority Fund Driven Projects

A10 - Trivial Commutation

What is it?

This is where a member who is entitled to a small pension can elect to give up the entirety of that pension and instead receive their benefit as a single lump sum payment. A project will be carried out to identify any pensioners and dependants who may be eligible for trivial commutation and to offer it to them. This will reduce the administrative burden on the Fund paying a large number of very small pensions over a number of years as well as providing greater clarity from a funding perspective. The government has a limit for members to trivially commute their pension in relation to their single pension (£10,000 value – called a "small pot") and total benefits (£30,000 – called "trivial commutation"). As well as reducing the number of pensioner payments that require ongoing payment, this could also have a positive impact on the funding level as it removes the liabilities for these members. It will also be welcomed by a number of pensioners who would prefer a one-off lump sum payment rather than ongoing smaller payments of little value.

Timescales and Stages

Timescales below are indicative and subject to prioritisation of other administration work streams.

Identify members eligible to commute under £10,000	2022/23 Q3
Communicate with eligible members and pay lump sums	2022/23 Q4 to 2023/24
Identify members eligible to commute under £30,000	To be determined
Communicate with eligible members and pay lump sums	To be determined

Resource and Budget Implications

It is hoped that the first stage of this work (relating to the £10k cases) can be completed internally within the existing budget. This is likely to be led by the Technical and Payroll Team with some assistance from the Operational Team.

Employer Liaison Team Projects

Understanding the continuing pressure on resources and budgets for employers and the administering authority, the CPF offers assistance to Fund Employers in providing accurate and complete notifications to the Fund (and other Employer duties) in a timely manner. The Employer Liaison Team (ELT) mainly assists in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS. It undertakes outstanding requests for information in order to cleanse the pension records. All ELT costs are recharged to employers using the ELT service through their employer contribution rate. Resources continue to be reviewed to meet demand depending on ongoing employer uptake. The total budget allocated for 2022/23 is £363k which includes £62k of staffing costs to allow for two new posts if required. £60k of this total budget relates to temporary McCloud services.

E1 – McCloud ELT Services

What is it?

Provide and continue developing ELT services in relation to data provision and other ongoing support to assist with the impact of the McCloud Judgement.

Timescales and Stages

Assisting employers with data collation for McCloud	2022/23 Q1 to 4 and 2023/24

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Administered by
CYNGOR Sir y Fflint
Flintshire
COUNTY COUNCIL

Clwyd Pension Fund

McCloud Programme Update

Prepared for: Clwyd Pension Fund Committee
Prepared by: Aon
Date: 9 November 2022

QAS Institute and Faculty of Actuaries®
Quality Assurance Scheme

AON

High level Programme Plan

Key	Description
	Complete
	On track
	Overdue
	At risk
	Not started

Workstream /key deliverables	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22 to Sep-23	Oct-23
Regulations																									
i. Submit Fund response (milestone 1)	x																								
ii. Consultation response & draft regulations from DLUCH (milestone 2)																								x	
iii. Ministerial statement								x																	
iv. Regulations made (milestone 3) – estimated																								x	
v. Regulations come into effect (milestone 4)*																									x
Communications workstream																									
i. Pensions Saving Statements issued	x																								
ii. Pensions Extra issued	x																								
iii. Other McCloud communications								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Data workstream including Heywood McCloud data solutions																									
i. Data collection template, decision process and collection protocol & employer questionnaire	x	x	x	x	x	x	x	x																	
ii. Employer engagement – pilots, 1to1s, monitor/manage timetables		x	x	x	x	x	x	x	x	x	x														
iii. Data collection from employers, review & validate data				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	
iv. Data validations protocol, draft, approval																x	x	x	x	x	x	x	x	x	
v. Heywoods' tools - New Insights report, Interface & McCloud data views																							x	x	
vi. Upload data to Altair, testing, final																								x	
vii. Further data cleansing / manual input																								x	
Funding, accounting and cashflows workstream																									
i. Agree plan with actuary on funding implications, conts etc																								x	
ii. Delivery - TBC																								x	x
Ongoing administration																									
i. Scoping workstream																								x	
ii. Delivery																								x	x
Benefits rectification																									
i. Scoping workstream																							x	x	
ii. Receive further details and patch releases of initial Heywood functionality, testing														x	x	x	x	x	x	x	x	x	x	x	
iii. Delivery (other)																								x	x
Programme meetings																									
i. Workstream meetings including governance	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
ii. PMG / SG meetings		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

*Latest update suggests that regulations could come into effect as late as October 2023 (previously April 2023)

McCloud Programme Dashboard

Programme Health:

Key	Description
	Complete
	On track
	Overdue
	At risk
	Not started

Programme background: The Court of Appeal has ruled that changes to public service pension schemes, including the LGPS, for future service made in 2014 and 2015, were discriminatory against younger members. The Government eventually gave a commitment to make changes to all public service pension schemes to remove discrimination.

Programme purpose: To implement the regulations the Government will make to remedy the discrimination against younger members of the LGPS for the Clwyd Pension Fund.

Key deliverables 31 March 2022 – 31 March 2023

Programme workstream deliverables / Description	Responsibility	Sign-off	Deadline	Notes	Status
1. Data collection – checking, validations & uploading i. Data collection ii. Data checking and quality analysis (data validation procedure) iii. Data uploading to Altair	Data workstream	PMG	March 2023	McCloud team to formed a proposal around data validation process – PMG approval provided in October 2022. Data validation complete by October 2022 for 90%* of in scope membership and loaded to Altair by December 2022 (100% by March 2023). PMG sign off required before upload commences (*Data validation deadline moved from 100% to 90% by end October. This is not expected to have a detrimental impact on the programme deliverables / key milestones.)	**In progress**
2. Heywoods' tools i. New Insights report (uploads check), Interface & McCloud data views	Data workstream	PMG	March 2023	Discussions with Heywoods taking place around the new Insights report, Interface and McCloud data views. CPF have confirmed their requirements around the Insights report.	**In progress**
3. McCloud communications i. Clwyd catch up – McCloud article ii. Combined DBS / newsletter - McCloud wording iii. ABS / newsletter – McCloud wording	Communications workstream	PMG / SG	March 2022 May 2022 June 2022	Various communications including wording in respect of McCloud.	**Complete**
4. Consultation outcome announcement / ministerial statement / regulations	n/a	n/a	Autumn 2022 to Autumn 2023	Consultation announcement from DLUHC which was expected in July 2022, now expected later in 2022. It is expected to provide clarity in a number of areas and will be accompanied by a further set of draft regulations and further areas for consultation, which will be consulted on in early 2023. The LGPS regulations will be made later in 2023 and come into force by 1 October 2023 (noting previously this was "on" 1 April 2023). In Autumn/Winter 2022 it is hoped draft guidance will be issued by SAB, which may be adopted as statutory guidance by DLUHC once it has been consulted on.	**In progress**
5. Programme meetings i. Data workstream (every 3 weeks) ii. Communications workstream (2 per quarter) iii. Other workstreams (TBC) iv. PMG (2 per quarter) v. SG (bi-annually)	Programme Manager	n/a	Ongoing	Agree appropriate time to commence other workstream meetings – ongoing administration / benefits rectification workstream expected to commence in late 2022 / early 2023. Update reports provided to SG where full meetings are not deemed required.	**In progress**

Programme success criteria (SC)	
SC1	Identify in-scope members with 100% accuracy
SC2	Obtain and load to the administration system all data required to calculate final salary underpin, adopting agreed assumptions where data cannot be reasonably obtained
SC3	Administration processes and systems are all amended and operate in line with the regulations from the effective date
SC4	Benefit rectification is completed accurately for all affected members by the required/agreed date
SC5	Member communications are effective, evidenced by few queries and complaints
SC6	Automation minimizes the impact on resources and SLAs/KPIs during implementation, rectification and ongoing administration
SC7	The programme is completed without unplanned disruption to business as usual and other Clwyd Pension Fund projects
SC8	The programme is completed within budget and timescale (subject to reasonable tolerances), noting that these will be agreed and reassessed from time to time throughout the programme.
SC9	The additional costs falling to employers transpire to have been reasonably estimated at the 2019 actuarial valuation

Programme Risks (1 of 2) – current risks furthest from target

There are several risks that the programme's success criteria will not be achieved – these have been identified by CPF's programme management, are captured in a formal risk log and monitored on an ongoing basis. The current risks that are red and furthest from target are shown on in the table below.

Risk no	Risk overview (this will happen)	Risk description (if this happens)	Programme Group	Owner	Success criteria at risk	Current risk impact	Current risk likelihood	Current risk status	Proposed controls in place	Target risk impact	Target risk likelihood	Target risk status
3	Unable to load data efficiently and accurately, and in a timely manner	Data cannot be loaded onto the system in an efficient, accurate and timely manner, leading to project delays or issues with the underpin calculation. Risk covers inappropriate data format provided from employer as well as issues with uploading the data into the interface.	Data Workstream	Jayne Taylor	SC1, SC2, SC8	Critical	Very High (65%)		1. Early engagement with Heywood on a one to one basis. 2. Initial virtual meeting and ongoing one-to one meetings with employers to highlight strict data requirements/formats. 3. Full instructions, including checklist provided to all employers at initial engagement stage. 4. Ongoing discussions around resourcing including upskilling and flexibility of employees.	Negligible	Unlikely (5%)	
5	Insufficient or inappropriate resources	Inability to source appropriate resources required to deliver the programme deliverables (including data uploading) in the required timescales	Programme Management Group	Karen Williams	SC8	Critical	Significant (50%)		1. Thorough programme planning, scoping of work & recruitment programme (recruitment is currently underway at June 2020, and further recruitment from March 2021). 2. Forward planning and ongoing monitoring of resource requirements. 3. Concern raised and action taken as matter of urgency. 4. Flexibility to utilise resource (including training or physical resource) from consultants if required. 5. Refer all stakeholders to roles and responsibilities document to ensure resources are matched with correct roles alongside regular reminder at points throughout the programme. 6. Strong engagement with software supplier looking for alternative efficiencies. 7. Build resourcing plan (discussed & agreed with ERs) & understanding staff skill 8. Monitoring resource of Alicia Howells' team once more info on toolkit provided / Consider interface process being carried out in McCloud team (after training). 9. Consideration of external resource.	Negligible	Very Low (15%)	
30	Heywood toolkit – not fit for purpose or delay in provision or service	Inability to identify aggregation cases leading to inaccurate benefit calculations and / or delay to provision of toolkit resulting in programme delays or detrimental impact on programme resourcing	Data Workstream	Jane Taylor	SC2, SC3, SC8	Critical	Significant (50%)		1. Pressure on Heywood client manager to come up with a feasible solution 2. Stop deleting status 8s 3. Try to identify cases to come up with an action plan if Heywood cannot come up with a workable solution (potentially liaise with other funds 4. Work out overlapping cases.	Negligible	Unlikely (5%)	
39	Adhering to the new communications strategy	Objectives of the Communications strategy are not met by McCloud Communications	Communications Workstream	Kath Meacock	SC5	Critical	Very High (65%)		1. Development of an implementation plan. 2. Comms officer to be added to comms workstream.	Negligible	Unlikely (5%)	

Programme Risks (2 of 2) – current risks furthest from target

There are several risks that the programme's success criteria will not be achieved – these have been identified by CPF's programme management, are captured in a formal risk log and monitored on an ongoing basis. The current risks that are red and furthest from target are shown on in the table below.

Risk no	Risk overview (this will happen)	Risk description (if this happens)	Programme Group	Owner	Success criteria at risk	Current risk impact	Current risk likelihood	Current risk status	Proposed controls in place	Target risk impact	Target risk likelihood	Target risk status
6	Other external interference	Work on other projects including GMP Equalisation / cost cap / Goodwin case / pensions dashboard leading to resource constraints on McCloud programme unable to be delivered.	Programme Management Group	Karen Williams	SC7	Critical	Significant (50%)		1. Thorough programme planning linking in with BAU planning. 2. Attendance of VB and KM on working groups allowing stakeholders to keep abreast of developments. 3. Data cleansing can still be done and staff to be side-tracked temporarily to assist with work on the other projects where appropriate.	Critical	Very Low (15%)	
13	Final regulations	Regulations are delayed, do not meet objectives or are subject to further challenge, leading to programme delays (including delay in toolkit production) and impact on budgets	Programme Management Group	Karen Williams	SC7, SC8	Critical	Extremely High (80%)		1. Thorough project planning. 2. Attendance of VB & KM on working groups allowing stakeholders to keep abreast of developments. 3. Ongoing engagement with Heywood, volunteered as testing site. 4. Manual uploads with some of the smaller employers.	Critical	Very Low (15%)	

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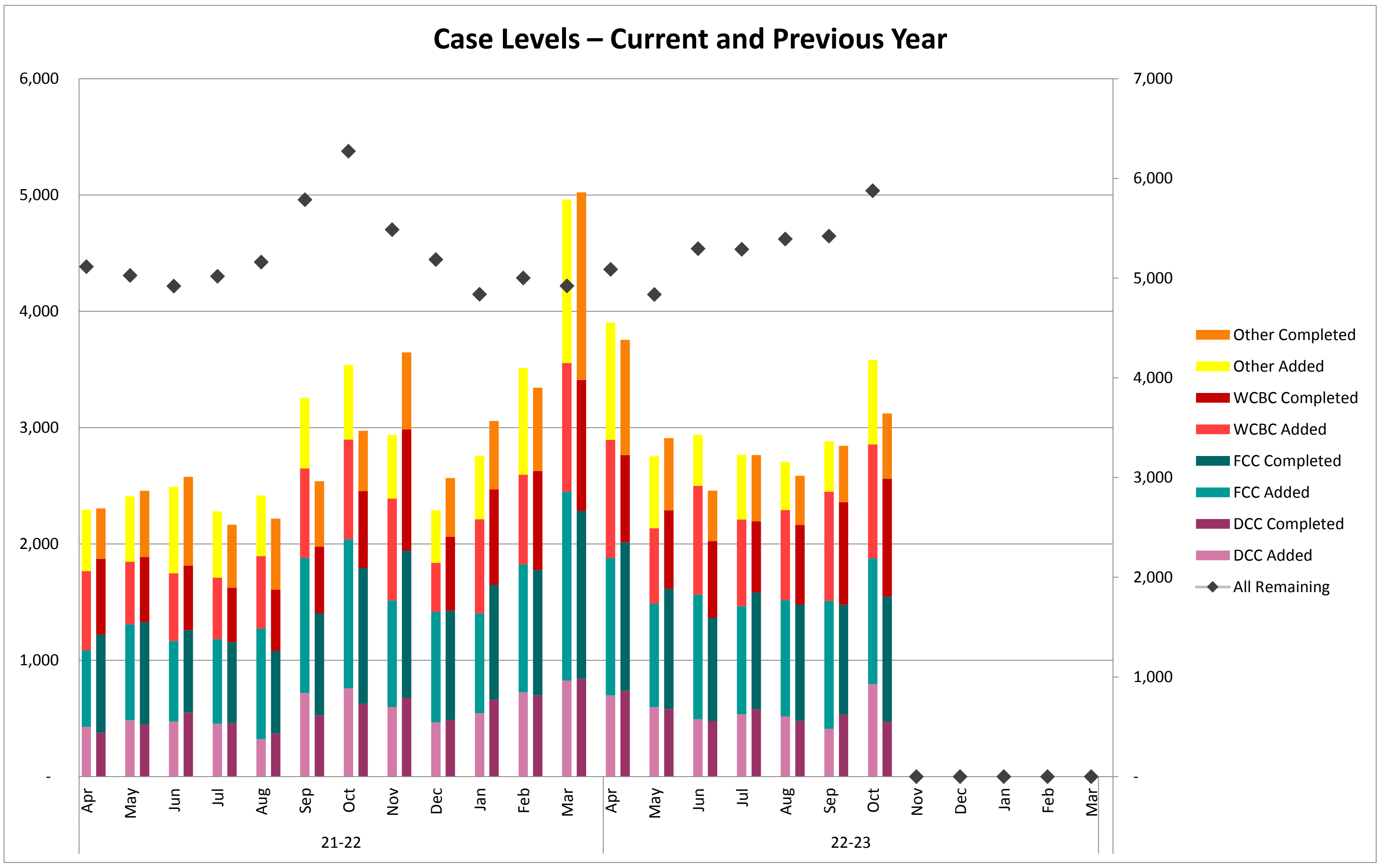
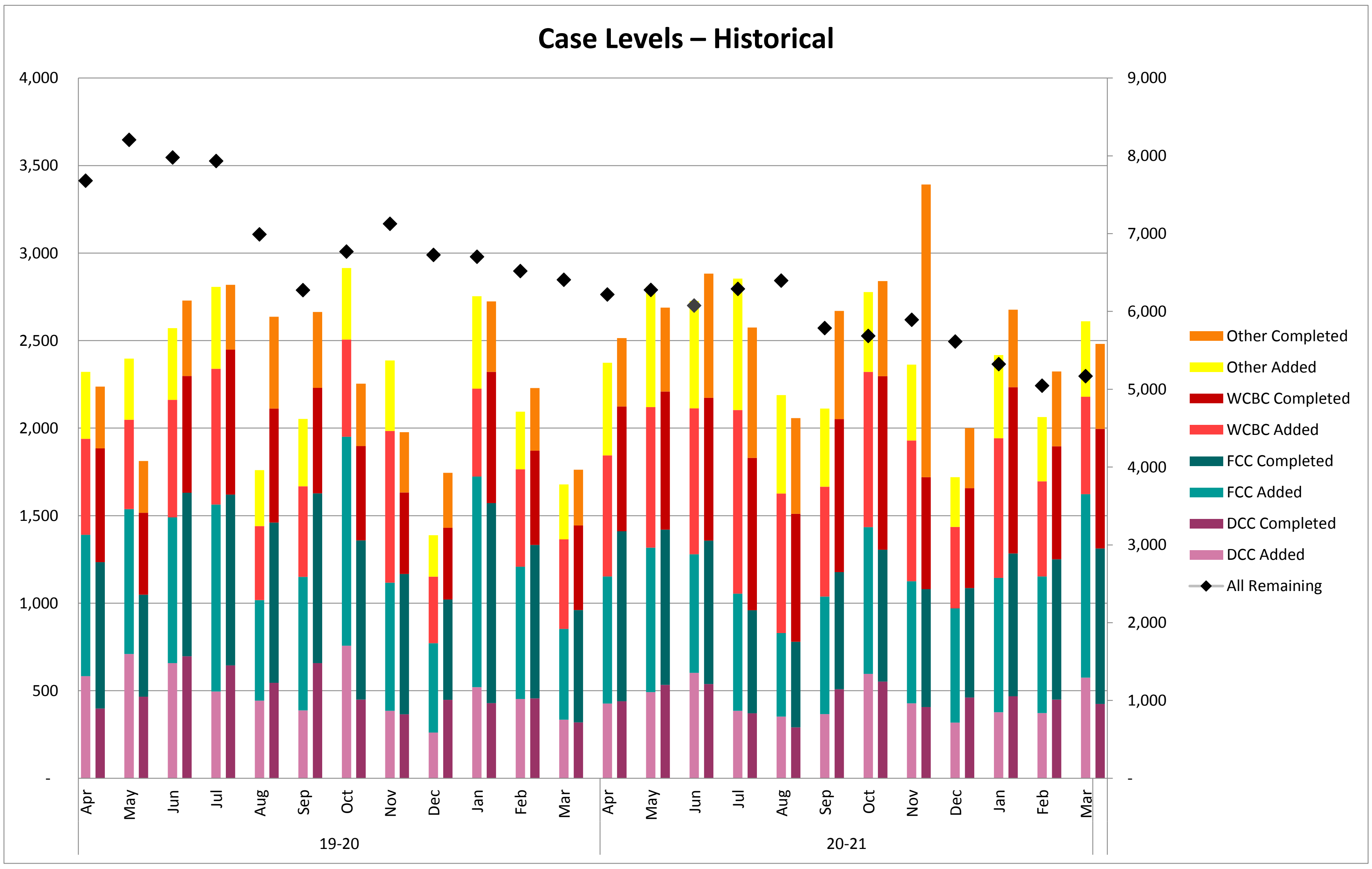

Case Levels – Current and Previous Year
6,000
5,000
4,000
3,000
2,000
1,000
-
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
21-22
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
22-23
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining


Case Levels – Historical
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
19-20
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
20-21
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining

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Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover thirteen areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members)
- The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	46 working days from date of joining (i.e. 2 months)	30 working days from receipt of all information
2	To inform members who leave the scheme before retirement age of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) 3 or within a reasonable period (cash transfer sum)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age	23 working days from date of retirement	10 working days from receipt of all information
6	Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months to beneficiary from date of becoming aware of death, or from a date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information
8	Calculate and Notify member of CETV for Divorce/Dissolution Quote	3 months from the date of request	46 working days from date of request	20 working days from receipt of all information
9	Calculate and Notify members of Actual Divorce Share	4 months from the date of the pension sharing order, or the date where all sufficient information is received to implement the order	46 working days from date of request	15 working days from receipt of all information
10	Calculate and pay a Refund of contributions	Not applicable	13 working days from receipt of request	10 working days from receipt of all information
11	Calculate and Pay retirement lump sum	Not applicable	Not applicable	15 working days from receipt of all information
12	Calculate and Notify member of Deferred Benefits	Not applicable	76 working days from date of leaving	30 working days from receipt of all information
13	Initial letter acknowledging death of member	Not applicable	Not applicable	3 working days from receipt of all information

Interpretation of graphs

One graph has been provided for each KPI in the table above.

This is illustrated further below.

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Gweinyddwyd gan / Administered by Cyngor Sir y Fflint / Flintshire County Council

Key Performance Indicators - Executive Summary - to October 2022

Joiners - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	971	90	1%	63
OVERALL	971	90	1%	63
CPF	1,057	4	0%	63

Joiners - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	3,741	476	9%	261
OVERALL	3,741	476	9%	261
CPF	4,199	18	0%	261

Leavers - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	585	0	0%	245
OVERALL	396	189	2%	245
CPF	584	1	1%	245

Leavers - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	1,963	4	0%	107
OVERALL	1,232	735	19%	107
CPF	1,956	11	1%	107

Transfers In - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	93	14	2%	3
OVERALL	93	14	2%	3
CPF	90	17	-1%	3

Transfers In - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	305	48	12%	62
OVERALL	305	48	12%	62
CPF	299	54	27%	62

Transfers Out - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	161	1	1%	30
OVERALL	158	4	3%	30
CPF	141	21	-3%	30

Transfers Out - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	544	5	1%	153
OVERALL	529	20	0%	153
CPF	475	74	11%	153

Retirements - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	395	76	4%	4
OVERALL	336	135	3%	4
CPF	426	45	-3%	4

Retirements - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	1,382	258	2%	177
OVERALL	1,187	453	2%	177
CPF	1,517	123	2%	177

Quotations - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	179	6	-1%	-22
OVERALL	179	6	-1%	-22
CPF	130	55	-23%	-22

Quotations - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	750	10	0%	-243
OVERALL	750	10	0%	-243
CPF	663	97	0%	-243

Deaths - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	29	15	-12%	-15
OVERALL	10	34	2%	-15
CPF	24	20	-1%	-15

Deaths - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	164	48	-8%	1
OVERALL	55	157	-14%	1
CPF	145	67	-11%	1

Divorce Quote - Last 3 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	30	0	0%	7
OVERALL	30	0	0%	7
CPF	30	0	0%	7

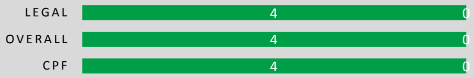
Divorce Quote - Last 12 months

	Within KPI	Outside KPI	Change in % completed within KPI	Change in number completed
LEGAL	114	0	2%	55
OVERALL	114	0	2%	55
CPF	109	2	3%	52

Divorce Share - Last 3 months

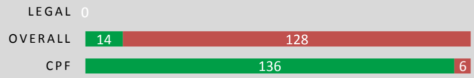
	Change in % completed within KPI	Change in number completed
LEGAL	n/a	-1
OVERALL	n/a	-1
CPF	n/a	-1

Divorce Share - Last 12 months



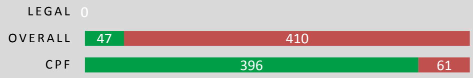
	Change in % completed within KPI	Change in number completed
LEGAL	0%	1
OVERALL	67%	1
CPF	0%	1

Refund - Last 3 months



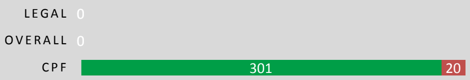
	Change in % completed within KPI	Change in number completed
LEGAL		
OVERALL	3%	17
CPF	11%	17

Refund - Last 12 months



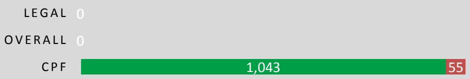
LEGAL		
OVERALL	-1%	273
CPF	13%	273

Retirement Lump Sum - Last 3 months



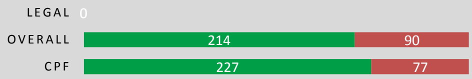
	Change in % completed within KPI	Change in number completed
LEGAL		
OVERALL		
CPF	-1%	24

Retirement Lump Sum - Last 12 months



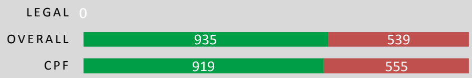
LEGAL		
OVERALL		
CPF	-1%	449

Deferred Benefits - Last 3 months



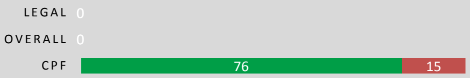
	Change in % completed within KPI	Change in number completed
LEGAL		
OVERALL	-1%	-3
CPF	-4%	-3

Deferred Benefits - Last 12 months



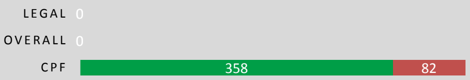
LEGAL		
OVERALL	38%	415
CPF	38%	415

Death Acknowledgment - Last 3 months

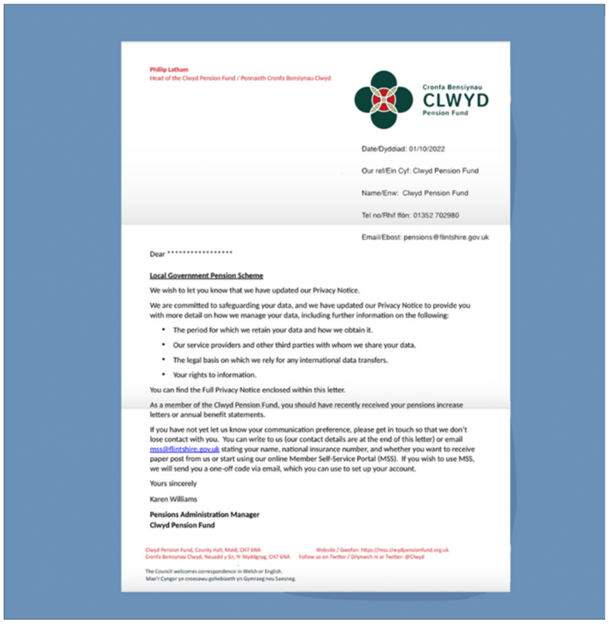


	Change in % completed within KPI	Change in number completed
LEGAL		
OVERALL		
CPF	-5%	-20

Death Acknowledgment - Last 12 months



LEGAL		
OVERALL		
CPF	3%	195



Phillip Latham
Head of the Clwyd Pension Fund / Pennaeth Cronfa Bensiynau Clwyd

Cronfa Bensiynau CLWYD Pension Fund

Date/Dyddiad: 01/10/2022

Our ref/Ein Cyf: Clwyd Pension Fund

Name/Enw: Clwyd Pension Fund

Tel no/Rhif ffôn: 01352 702980

Email/Ebost: pensions@flintshire.gov.uk

Dear *****************

Local Government Pension Scheme

We wish to let you know that we have updated our Privacy Notice.

We are committed to safeguarding your data, and we have updated our Privacy Notice to provide you with more detail on how we manage your data, including further information on the following:

- The period for which we retain your data and how we obtain it.
- Our service providers and other third parties with whom we share your data.
- The legal basis on which we rely for any international data transfers.
- Your rights to information.

You can find the Full Privacy Notice enclosed within this letter.

As a member of the Clwyd Pension Fund, you should have recently received your pensions increase letters or annual benefit statements.

If you have not yet let us know your communication preference, please get in touch so that we don't lose contact with you. You can write to us (our contact details are at the end of this letter) or email mss@flintshire.gov.uk stating your name, national insurance number, and whether you want to receive paper post from us or start using our online Member Self-Service Portal (MSS). If you wish to use MSS, we will send you a one-off code via email, which you can use to set up your account.

Yours sincerely

Karen Williams

Pensions Administration Manager
Clwyd Pension Fund

Clwyd Pension Fund, County Hall, Mold, CH7 6NA
Cronfa Bensiynau Clwyd, Neuadd y Sir, Yr Wyddgrug, CH7 6NA

Website / Gwefan: https://mss.clwydpensionfund.org.uk
Follow us on Twitter / Dilynwch ni ar Twitter: @Clwyd

The Council welcomes correspondence in Welsh or English.
Mae'r Cyngor yn croesawu gohebiaeth yn Gymraeg neu Saesneg.

Cronfa Bensiynau
CLWYD
Pension Fund

Sophistication
Strength

Optimism
Positivity
Forward-thinking

Aa

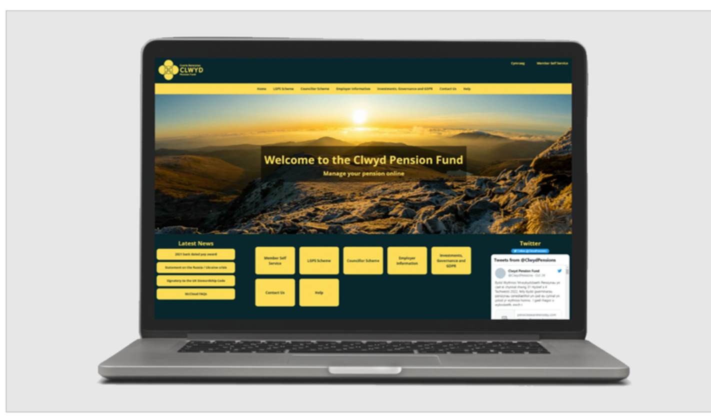
Aa Bb Cc Dd Ee Ff Gg
Hh Ii Jj Kk Ll Mm Nn
Oo Pp Qq Rr Ss Tt Uu
Vv Ww Xx Yy Zz
1 2 3 4 5 6 7 8 9 0

Growth
Nature
Security

Cronfa Bensiynau
CLWYD
Pension Fund

The new Clwyd Pension Fund logo pays homage to Welsh heritage whilst visualising the various elements that make up the Fund. Traditionally a Welsh Celtic symbol, the illustrated mark represents earthly elements and symbolises connection, unity and protection. The colours chosen represent the characteristics of the Fund and will provide accessibility, simplicity and consistency throughout all brand communications.

The centre of the logo represents the Clwyd Pension Fund and the surrounding petals symbolise our scheme members, employers, Pension Fund Committee, Pension Board and other organisations that we engage with as part of the day to day running of the Fund. This symbol reinforces the professionalism and commitment to engage with all stakeholders, and provide excellent service to all our customers.



Cronfa Bensiynau
CLWYD
Pension Fund

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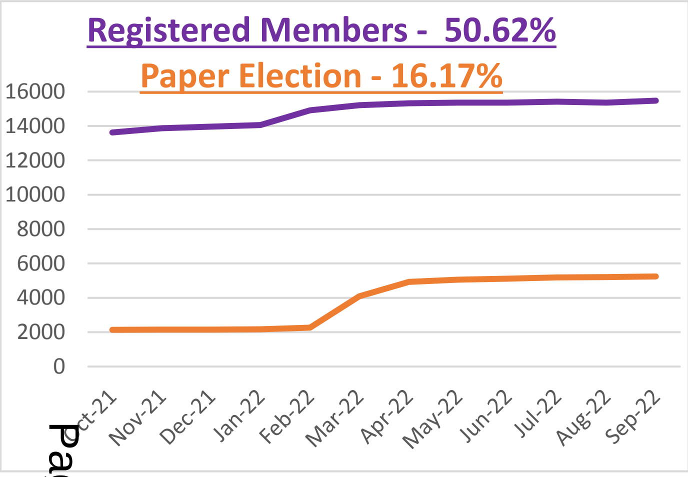
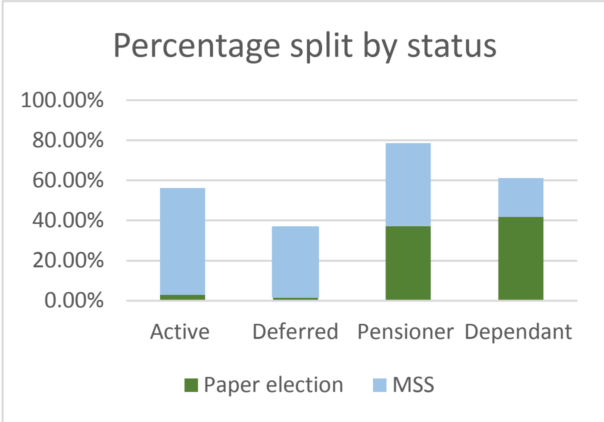
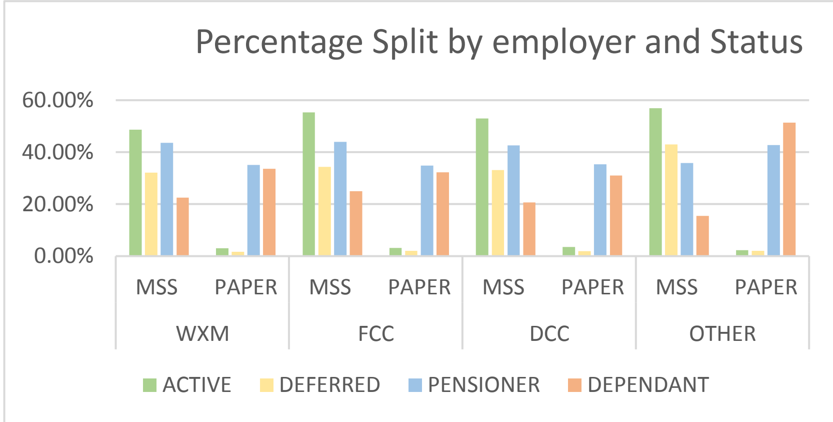
Cronfa Bensiynau Clwyd
Clwyd Pension Fund
Gweinyddwyd gan / Administered by Sir y Fflint Flintshire

Member Self-Service: 01/08/2022 – 30/09/2022







Update from 01/08/2022 – 30/09/2022

As at 30/09/2022 50.62% of our members have registered for MSS. This means that the percentage of registered members has increased by 0.30% since our last update.

As at 30/09/2022 16.17% of our members have opted for paper correspondence. This percentage has increased by 0.11% since our last update.

During the period 01/08/2022 – 30/09/2022, the Clwyd Pension Fund has issued annual benefit statements to our active members. These have been issued via both MSS and paper post depending on members' communication preference.

We have also recently carried out another exercise to ask those members who have not chosen a communication preference, to do so. The next update will show statistics of how successful this promotion has been.

(Statistics between 01/08/2022 to 30/09/2022: (61 days)

Contact Us Tasks

358	**MSSKEY Key requests**
99	SSFCASE (pay deferred)
65	MSSENQ Enquiry tasks
3	MSSEST Estimate tasks
31	MSSRET Retirement tasks
16	MSSTVT Transfer tasks
214	**Contact Us 3.51 p/day)**
289	**MSSADD Address update**
9	**Bank details updated**

Benefit Projections

9,286 benefit projections calculated

Avg 152.23 per day

Expression of Wish

344 changes of expression of wish

5.64 per day

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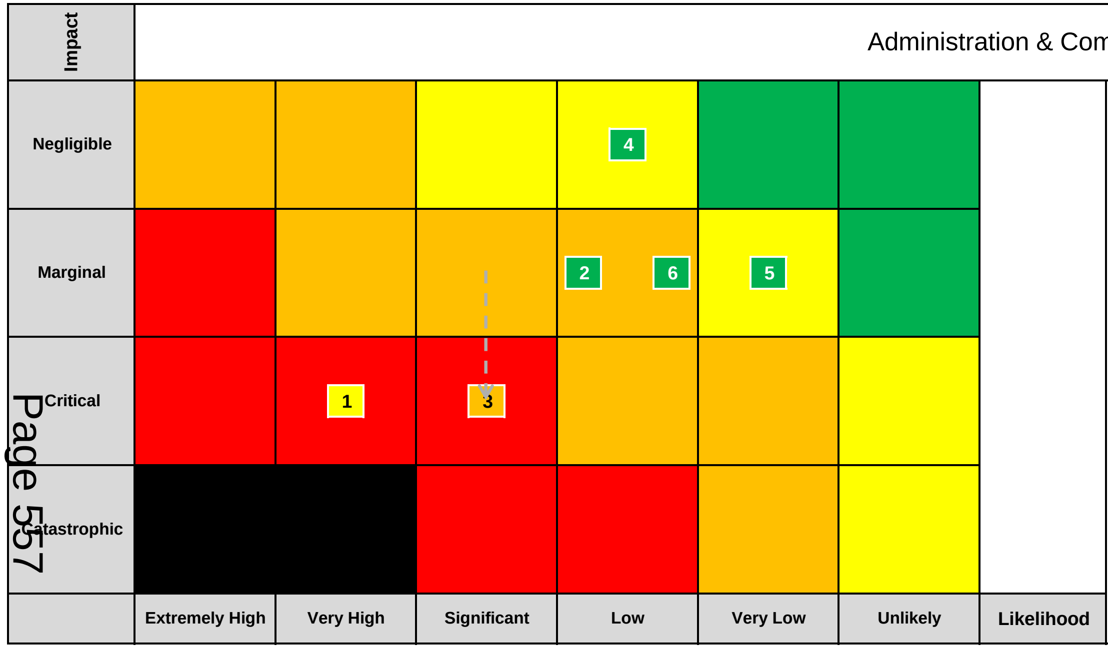
Administration and Communication Risks Heat Map and Summary



Key

1 — Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 — The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

11 November 2022

Clwyd Pension Fund - Control Risk Register

Administration & Communication Risks

Objectives extracted from Administration Strategy (05/2021) and Communications Strategy (09/2019):

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders but with a default of using electronic communications where efficient and effective to do
C4 Look for efficiencies and environmentally responsible ways delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?		Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades (including due to Covid-19)	All	Critical	Very High		1 - Training Policy, Plan and monitoring in place 2 - Benefit consultants available to assist if required 3 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 4 - Data protection training, policies and processes in place 5 - System security and independent review/sign off requirements 6 - ELT established 7 - Temporary staff changed to permanent where appropriate, and further resource increase/recruitment to new posts 8 - Ongoing monitoring of ELT and Ops resource/workload for backlogs 9 - Establishment of aggregation team 10 - Ongoing training within the team 11 - Impact of potential Covid absences being discussed at regular managment catch ups and plans in place for ensuring priority work continues unaffected 12 - Reviewed wording of job descriptions to ensure fit for purpose	Negligible	Low		☹	Current impact 2 too high Current likelihood 2 too high	31/10/2021	Mar 2023	1 - Ongoing recruitment of vacant posts (KW) 2 - Action plan being developed for recruitment, retention, succession planning (PL)	Pensions Administration Manager	31/01/2023	10/11/2022
2	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters (including due to Covid-19)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Marginal	Low		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Establishment of ELT 5 - Increased data checks/analysis (actuary and TPR) 6 - Implemented further APP data checks to identify issues 7 - Increased engagement with employers as to how they are managing due to Covid, and ongoing CPF requirements, and introduced monthly monitoring of employers 8 - Developed and issuing monthly KPI reporting for employers 9 - I-connect in place for all Fund employers 10 - Monthly meetings with Employers to discuss any ongoing data issues and provide training where required.	Negligible	Very Low		😐	Current impact 1 too high Current likelihood 1 too high	01/07/2016	Jan 2023	1 - Implement new process for employers relating to service standards (KW/AH)	Pensions Administration Manager	31/01/2023	10/11/2022
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes including McCloud, Pensions Dashboards and potential exit cap, backdated pay awards)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Significant		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required 3 - Recruitment to new posts 4 - McCloud planning undertaken, including governance structure with Steering Group and PMG 5 - The Pension Administration Manager sits on PLSA working group for Pensions Dashboards 6 - The Fund has volunteered to test the integration of the Administration system and Pensions Dashboard	Marginal	Low		😐	Current impact 1 too high Current likelihood 1 too high	27/08/2018	Jun 2023	1 - Ongoing consideration of the impact on resource of pay awards, likely national changes and Pensions Dashboards (KW) 2 - Ongoing consideration of potential exit cap on processes etc (KW/KM)	Pensions Administration Manager	31/01/2023	10/11/2022
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted, insufficient or not received (including McCloud and potential exit cap)	C1/ C2 / C3	Negligible	Low		1 - New Communications Strategy - focussed on digital engagement - approved June 2022 2 - Annual communications survey for employees and employers 3 - Specialist communication officer in team 4 - Website reviewed and relaunched (2017) 5 - Member self service in place 6 - Ongoing identification of data issues and data improvement plan in place 7 - Address tracing exercise undertaken for members who have not set a communication preference 8 - A Member self service activation key has been re-issued to all members who do not have a communication preference set and other initiatives for blackhole members.	Negligible	Very Low		😐	Current likelihood 1 too high	01/07/2016	Dec 2023	1 - Implement new communications strategy in line with 2022/23+ business plan (KM/KW)	Pensions Administration Manager	31/01/2023	10/11/2022
5	High administration costs and/or errors	Systems are not kept up to date or not utilised appropriately, or other processes inefficient (including McCloud and potential exit cap)	A2 / A4 / C4	Marginal	Very Low		1 - I-connect and MSS implemented 2 - Review of ad-hoc processes (e.g. deaths and aggregation) 3 - Participated as a founding authority on national framework for admin system 4 - Implementation of other Altair modules including Altair Insights (relating to TPR scores) 5 - Increased engagement with Heywood about change in their business model 6 - Increased engagement with Heywood re McCloud software enhancements 7 - Ongoing identification of data issues and data improvement plan in place	Negligible	Very Low		😐	Current impact 1 too high	01/07/2016	Mar 2023	1 - Waiting for PFC to agree contract extension (KW) 2 - If delays in system upgrades, look for alternative solutions to administer regulatory changes (KW)	Pensions Administration Manager	31/01/2023	10/11/2022
6	Service provision is interrupted	System failure or unavailability, including as a result of cybercrime and Covid-19	A1 / A4 / C2	Marginal	Low		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented 3 - Implemented lump sum payments via pensioner payroll facility 4 - Regular communications carried out during pandemic with Heywood and FCC regarding areas of risk 5 - Data/asset mapping complete and cyber strategy in place	Negligible	Unlikely		😐	Current impact 1 too high Current likelihood 2 too high	08/11/2019	Mar 2023	1 - Develop updated business continuity plan for CPF (KW) 2 - Implement remaining elements of cyber strategy (KW) 3 - Develop post Covid-19 approach to working arrangements (KW/PL)	Pensions Administration Manager	31/01/2023	10/11/2022

Agenda Item 11

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 23rd November 2022
Report Subject	Asset Pooling
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the work undertaken by the Wales Pension Partnership (WPP) with pooling investments in Wales.

The planned WPP Joint Governance Committee (JGC) on 21st September 2022 was cancelled, due to the passing of the Queen. The Committee was not re-scheduled hence the next JGC is 5th December 2022.

Otherwise the work of the WPP continued as normal, including publishing the WPP Annual Report, which is attached, and submitting the second WPP Stewardship Code Report to the Financial Reporting Council (FRC).

The Head and Deputy Head of Clwyd Pension Fund continue to assist the Host Authority (Carmarthenshire County Council) and the WPP Oversight Adviser (Hymans Robertson) with their respective roles, as well as representing the interests of the Clwyd Pension Fund on the:

- Officer Working Group
- Risk sub group
- Responsible Investment sub group
- Private Markets sub group – this includes the procurement process for private market allocators.

RECOMMENDATIONS	
1.	That the Committee note and discuss the update and agree any comments or questions for WPP.

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	**Joint Governance Committee (JGC)** The WPP JGC planned for 21st September 2022 was cancelled due to the passing of the Queen. The Host Authority decided, after consultation with the Officer Working Group (OWG), that it was not practical to re-schedule hence the next Committee is scheduled for 5th December 2022. The main item for approval for the September JGC was the appointment of the private equity allocator following the completion of a competitive tender. The Host Authority determined that there was no option to approve outside a formal JGC. The only impact for the Clwyd Pension Fund of the delay in the implementation of the private equity allocator is that it may be necessary to continue to use Mercer to provide advice on our planned 2023/24 commitments, rather than using the WPP allocator as originally planned. However this will be reviewed once the allocator is formally appointed and an implementation timeline is developed. The members of the JGC were still provided with the standard investment reports as at 30th June for information. From a Clwyd Pension Fund point of view, this is for the Global Opportunities Equity Fund (invested since February 2019), Multi Asset Credit Fund (invested since August 2020) and the Emerging Market Equity Fund (invested since October 2021). The Global Opportunities Equity Fund was ahead of benchmark since inception at that date but the other two mandates were behind. This position can change quarter to quarter.
1.02	**Officer Working Group & Sub Groups** The Deputy Head of Clwyd Pension Fund attends the Private Market sub-group and Responsible Investment (RI) sub-group. These are both complex areas and important for the Clwyd Pension Fund because 27% of our assets are in private markets and because of the ambitions within our Responsible Investment and Climate Risk policy. The Head of Clwyd Pension Fund attends the quarterly meetings of the Risk sub-group and all three groups report back to the Officer Working Group. An update was provided by WPP's Oversight Adviser and the Host Authority to the Officer Working Group on 14th October 2022 on the work of these groups and other matters. The main items for discussion in line with the WPP Business Plan were: • Plans for the launch of funds for infrastructure and private credit funds. These should be available for Clwyd Pension Fund's 2023/24 commitments. • The submission of the second Stewardship Code Report to the Financial Reporting Council (FRC). • Operator contract procurement preparation as the current contract ends December 2024 – a new WPP sub-group is being established to focus

	on this. • An update on Link Fund Solutions. Further details are included in agenda item 12. • ESG and climate risk reports on certain sub-funds • Reports from Link/Russell, Robeco and Northern Trust on investments, voting and engagement and stocking lending respectively. • Review of certain items on the risk register. Further details will be provided in future updates when relevant matters are reported to the next JGC.
1.03	The Host Authority has published the WPP Annual Report 2021/22 which is attached as an appendix. The report summarises : • Background to WPP, policies and role of its suppliers • Progress made during the year • Costs and savings and other financial information. • Investment and responsible investment • Risks • Training The WPP provides training for officers, JGC and constituent authority committee and board members. There was a training session on 19th October on WPP governance and another is planned on Responsible Investment and Climate Risk on 5th December 2022. Clwyd Pension Fund members are encouraged to attend.

2.00	RESOURCE IMPLICATIONS
2.01	There is considerable time allocated by the Head & Deputy of the Clwyd Pension Fund in delivering and monitoring the WPP Business Plan which is not recognised in the Clwyd Pension Fund budget, however it does result in greater reliance on external advisors on local matters than would otherwise be the case.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None

4.00	RISK MANAGEMENT
4.01	How the Wales Pension Partnership operates is key in enabling the Fund to implement its investment strategy. If performance is not in line with the

	assumptions in the Fund's strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations. In addition, further guidance on pooling is expected from Department for Levelling Up, Housing and Communities (DLUHC) shortly and the implications of that guidance are not yet known. The WPP risk register is normally included in the JGC agenda. The focus for the quarter which would have been reported to the September JGC was Training & Resource risk. All of these risks are on target. The current key WPP risk is the uncertainty on the change of ownership of Link Fund Solutions and the potential impact of the outcome of the Financial Conduct Authority (FCA) investigation. Further details on how this is being managed by the Host Authority is included in agenda item 12. Investment and performance risks have also been updated and reported to Officer Working group and will be reported to the next JGC. The two risks currently behind target are : • WPP sub funds fail to achieve long term investment targets and • WPP fail to adequately account for climate risk and other ESG factors. In terms of the first risk there is currently only short term evidence to consider but several sub–funds are behind target at the time of review. The second risk identifies more work is required in considering the benefits of a more consistent approach across the constituent authorities in setting net zero targets. The Head of Clwyd Pension Fund attends the WPP Risk sub group.

5.00	**APPENDICES**
5.01	Appendix 1 – WPP Annual Report 2021/22

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Earlier Committee reports on the progress of the WPP. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** Philip.Latham@flintshire.gov.uk

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) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling (f) **Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments (g) **The Operator –** an entity regulated by the FCA, which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link Fund Solutions Limited. **(h) Financial Reporting Council (FRC) –** an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Steward. (i) **Financial Conduct Authority (FCA) –** The Financial Conduct Authority (FCA) regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers. **(j) Department for Levelling Up, Housing and Communities (DLUHC) –** The Department for Levelling Up, Housing and Communities supports communities across the UK to thrive, making them great places to live and work.

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Wales Pension Partnership

Annual Report

2021/2022

Contents

Introduction

Firstly, please allow me to take this opportunity to thank you for taking the time to read our Annual Report. The report is a useful way of keeping the Wales Pension Partnership ("WPP") stakeholders, and all other interested parties, up-to-date and informed on the work and activities undertaken by the WPP over the past twelve months.

Before handing over to the Vice-chair of our 2021/22 Joint Governance Committee, Councillor Chris Weaver, who will be providing you with an overview of some of WPP's highlights over the past year and plans for the year ahead, I wanted to provide a brief explanation as to what the WPP is, what it does and why it does it.

The WPP is one of eight Local Government Pension Scheme ("LGPS") Investment Pools. LGPS Investment Pools were created back in 2017 in response to government regulation which required the 89 Local Government Pension Funds in England and Wales to 'Pool' their assets in order to deliver greater benefits of scale, cost savings, and other efficiencies.

Prior to the announcement of the Government's Pooling Regulation, the eight LGPS Funds within Wales, had been collaborating and had already delivered costs savings from a joint collaboration on passive investments. Following the introduction of the new pooling regulation the eight Welsh Constituent Authorities agreed that they would continue and enhance their levels of collaboration. In 2017, the WPP was formally established to facilitate and assist the pooling activities and efforts of Wales's Constituent Authorities. Since 2017, the WPP has enabled the Constituent Authorities to pool around 72% of their assets.

All of the Constituent Authorities participating in the WPP have an equal say in the direction and actions of the pool. They have agreed that the WPP should focus on delivering an investment framework that achieves the best outcomes for its stakeholders, which are ultimately the Constituent Authorities and the underlying members of their pension funds.

All of the Constituent Authorities are involved in all aspects of the WPP and support its work programme. It was agreed that there was a need for a 'Host Authority' who could take responsibility for the day to day running of the Pool. Currently this role is being carried out by Carmarthenshire County Council. The Host Authority is responsible for numerous aspects of the WPP's operations, ranging from the procurement and oversight of WPP's service providers and advisors to the upkeep of the WPP's website. The Host relies on the support, input and collaboration of the other seven Constituent Authorities. WPP's strength and progress stems from the incredible levels of collaboration and trust between the Constituent Authorities, alongside their unrelenting commitment to delivering the best possible outcomes for the WPP stakeholders.

I hope that you will find this report informative and that it gives you a sense of the tremendous progress, achievements to date and benefits delivered by the Welsh Constituent Authorities' collaboration. Please do feel free to contact us, using the contact details on Page 34, if you have any questions or feedback.

Yours Sincerely,

Chris Moore

Section 151 Officer,

Carmarthenshire County Council

JGC Chair's Statement

Welcome to the 2021/22 WPP Annual Report, which provides you with a review of the work that the WPP has undertaken over the past twelve months.

It has been another challenging year with remote working and the introduction of hybrid working and hybrid meetings, something we will see a lot more of over the next 12 months. The eight Constituent Authorities have continued to work collaboratively, and I would like to take this opportunity to thank them for the time and energy that they have contributed, as well as their positivity and flexibility, during this continued period of uncertainty.

This year saw the launch of the Emerging Markets sub fund which four of the eight funds have invested in, increasing the proportion of WPP's pooled assets to 72%. I would like to thank Link Fund Solutions, Russell Investments and Hymans Robertson for their continued assistance in developing these sub funds and for providing the constituent authorities with the opportunities to meet their own individual investment requirements.

One of WPP's key objectives for 2022/23 is the launch of the initial Private Markets sub-funds. WPP's appointed allocator advisors, bfinance, have been assisting with the identification of Allocators for the Private Market Asset Classes. The Private Debt and Infrastructure Allocators were appointed in March 2022 and these sub-funds are due to launch later this financial year.

Responsible Investment ('RI'), including climate risk continues to be a key priority for the Welsh Constituent Authorities. Quarterly climate risk monitoring reports continue to be produced for the Equity and Fixed Income sub-funds and the WPP has been working with Link Fund Solutions, Russell Investments, and the Constituent Authorities to develop a Sustainable Equity sub fund which is due to launch later in the year. An annual progress update has also been published, which provides an assessment of the progress the WPP has made towards delivering on the commitments in its RI Policy and Climate Risk Policy, a snapshot of the excellent work carried out by the WPP and, in particular, the RI sub-group.

I am delighted to announce that during 2021/22, the WPP published its first annual Stewardship Report and has been accepted as a signatory to the 2020 UK Stewardship Code. This is an amazing achievement and recognises all the work that the WPP has done and continues to do in this area. The WPP continues to engage with Robeco as its voting & engagement provider.

Since the WPP was established, one of its objectives has been to deliver a best-in-class governance framework for its stakeholders. This has been enhanced with the appointment of a co-opted (non-voting) scheme member representative on the Joint Governance Committee and the development of new policies and plans, including the Rebalancing & Alteration Policy and a Responsibilities Matrix. A Whistleblowing Policy and Business Continuity Plan are in the process of being developed and these will be finalised in 2022/23. All WPP policies are reviewed regularly and can be found on the WPP website - **https://www.walespensionpartnership.org/**, along with the annual progress update and stewardship code submission, which I refer to above.

Training and communication is critical to WPP's success and during the last 12 months, training sessions have continued to take place virtually. These sessions have covered a range of training topics relevant to the WPP and pooling with excellent attendance and engagement from Pension Committee and Penson Board members, as well as officers and JGC members. The annual training plan and a detailed workplan can be found in the 2022-2025 Business Plan.

We are proud of the progress that we have been able to make this year which has seen a further strengthening of the relationships between the Welsh Constituent Authorities and evidences the benefits of collaboration.

Finally, I would like to thank Cllr Clive Lloyd as chair of the Joint Governance Committee over the last 12 months who has subsequently ended his term of office with City and County of Swansea. I would like to wish him all the best for the future. I am looking forward to stepping up to the role of Chair over the next 12 months and to continue the excellent work of my predecessors. I would also like to welcome Cllr Ted Palmer who will take over my role as vice-chair.

We hope you enjoy our Annual Report.

Yours Sincerely,

Councillor Chris Weaver

Vice-chair of the Wales Pension Partnership Joint Governance Committee 2021/22

About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools.

We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

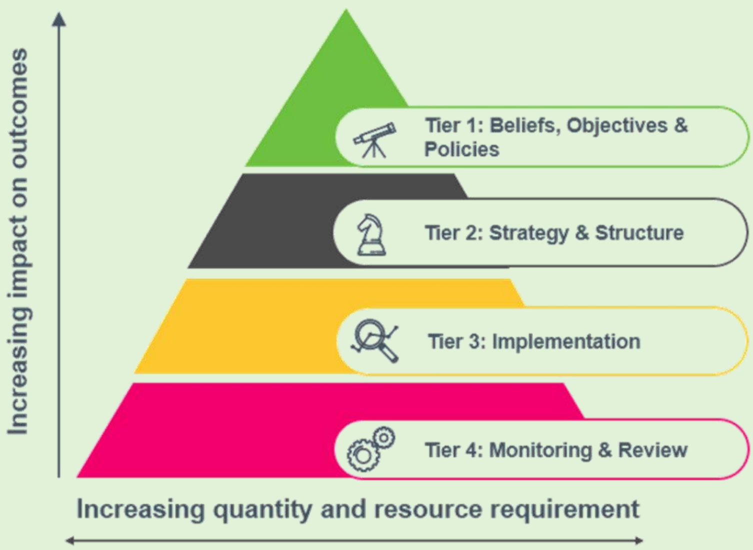
Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities. The eight Constituent Authorities of the Wales Pension Partnership are:

The eight Constituent Authorities have a shared vision and agreement on the means and pace at which this vision will be achieved. The WPP's Beliefs reflect the collaborative nature and shared values of the Constituent Authorities, they are as follows:

- The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented.
- Good governance should lead to superior outcomes for the WPP's stakeholders.
- Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders.
- Responsible Investment and effective Climate Risk mitigation strategies, alongside consideration and evidential management of Environmental, Social and Governance issues should result in better outcomes for the WPP's stakeholders.
- Effective internal and external communication is vital to achieving the WPP's objectives.
- External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise.

- Fee and cost transparency will aid decision making and improve stakeholder outcomes.
- Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve.
- A flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.

The WPP's beliefs have been given pride of place at the peak of the WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies. The WPP's governance framework is outlined below, this framework aims to ensure that key decisions are given priority and resources are focussed on areas most likely to contribute to the future success of the WPP:



The WPP is proud to represent the eight Constituent Authorities and recognises its duty to ensure the needs and requirements of its stakeholders are met. The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives which stem from its overarching beliefs. These can be summarised as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.
- To deliver an investment framework that achieves the best outcomes for its key stakeholders; the Constituent Authorities. The Constituent Authorities will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers.

The eight Constituent Authorities recognise that their strength derives from their shared beliefs and their ability to work together to deliver on their unified objectives for the benefit of all WPP stakeholders.

Pool Management

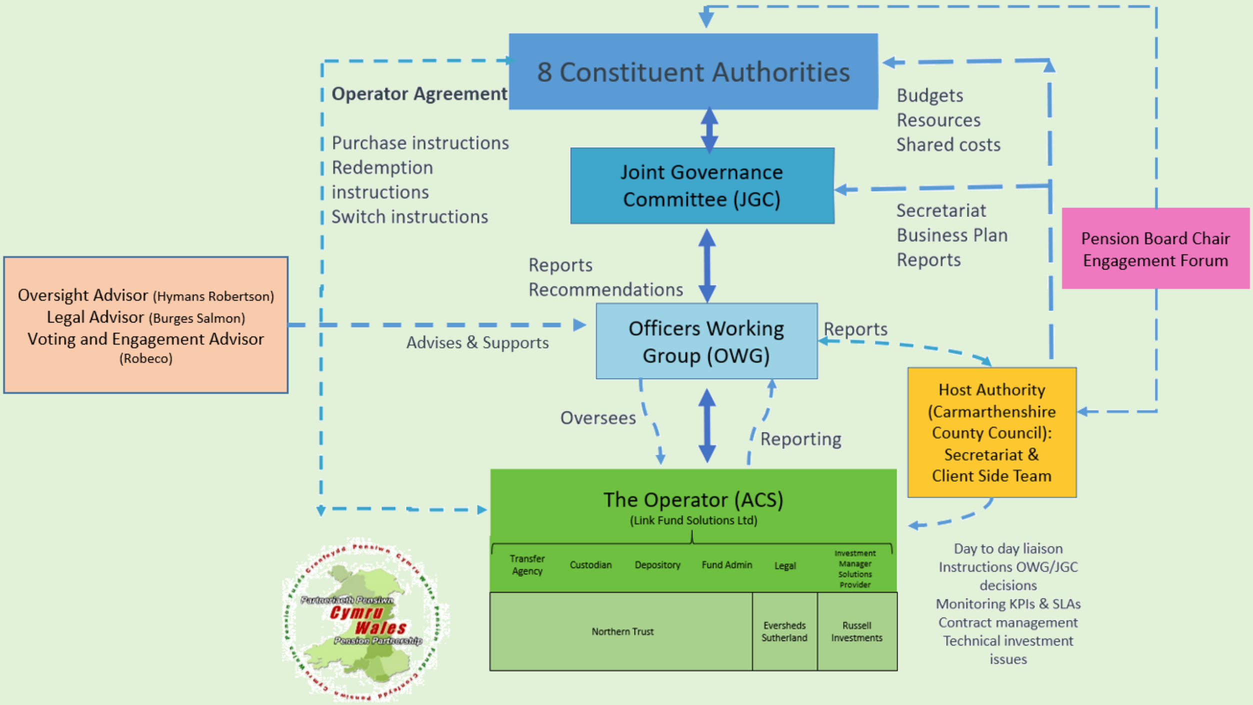
The WPP is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must also ensure that: public money is safeguarded and properly accounted for; used economically, efficiently and effectively; as well as to secure continuous improvement and delivery in this regard.

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA), which defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers. The IAA includes a Scheme of Delegation outlining the decision-making process, taking into account the relevant legislation. The WPP has also developed a Governance Manual which further articulates the WPP's governance arrangements, including its structure, policies and procedures. This is available on the WPP website.

In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure, which has been designed to:

- Deliver on its Objectives
- Be flexible and adaptive
- Demonstrate its commitment to the highest standards of governance
- Meet the needs of its stakeholders
- Foster collaboration and communication within the WPP
- Be transparent
- Be cost effective

The diagram below provides an illustration of the WPP's governance structure. The WPP's Governance Matrix can also be found on our website. It provides a concise overview of the WPP's governance structure and outlines the internal bodies that are responsible for key decisions and actions carried out by the Partnership.



The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving the WPP's Business Plan, which outlines the WPP's budget and workplan, as well at its Beliefs and Objectives. The WPP Business Plan can be found on our website. The Constituent Authorities are heavily involved in all aspects of the WPP's governance structure, while the WPP's Joint Governance Committee and Officers Working Group are comprised of representatives from the Constituent Authorities.

The WPP has created a number of committees, groups and roles as part of its governance structure, the creation of which has ensured that the WPP has been able to deliver a robust governance structure to its stakeholders. In particular, the WPP's governance structure seeks to promote;

Numerous checks and balances

Various sources of opinions, expertise and advise

A clear, transparent and democratic decision-making process

A brief introduction to the purpose and membership of the WPP's committees, group and roles can be found below:

Joint Governance Committee

The Wales Pension Partnership Joint Governance Committee (JGC) was formalised in June 2017 and during 2021/22 the JGC has met virtually four times. The JGC is comprised of one elected member from each of the eight Constituent Authorities and a co-opted (non-voting) scheme member representative. The elected member must be a member of that Constituent Authority and that Constituent Authority's Pensions Committee.

The Chair and Vice-chair are rotated on an annual basis. The chair during 2021/22 was Cllr. Clive Lloyd – City and County of Swansea Council (City and County of Swansea Pension Fund) and the vice-chair was Cllr Christopher Weaver – City and County of Cardiff Council (Cardiff & Vale of Glamorgan Pension Fund).

The JGC is responsible for overseeing the pooling of the investments of the eight Local Government Pension Scheme funds in Wales. The JGC's full set of responsibilities are set out in Schedule 3 (JGC Matters) and Schedule 4 (JGC Terms of Reference) of the Inter Authority Agreement. The JGC plays a critical role in either approving proposals, policies and activities or putting forward recommendations for Constituent Authority consideration

Given the importance of the JGC's role within the WPP's Governance Structure it is vital that there is high levels of engagement and attendance amongst Members of the JGC. The exemplary levels of engagement and attendance from the JGC Members to date is not only a reflection of their commitment to pooling and the long-term success of the WPP but also the willingness and desire of the Constituent Authorities to work together.

To aid the levels of engagement and collaboration the Constituent Authorities of Wales have agreed that JGC meetings will be hosted or a rotational basis across all eight Constituent Authorities. Due to Covid 19, all JGC meetings in 2021/22 have been held virtually. The JGC dates and attendance for 2021/22 are summarised in the table below:

JGC Date:	JGC Members in attendance:
28 July 2021	All 8 members
22 September 2021	All 8 members
1 December 2021	All 8 members
23 March 2022	All 8 members

These meetings are also attended by WPP's external advisors and other service providers, as and when required. The WPP prides itself on being open and transparent and this is evidenced by the fact that JGCs are publicly webcasted, while agendas and minutes are also made publicly available on Carmarthenshire County Council's website.

Officers Working Group

The WPP's Officers Working Group (OWG) was established with the purpose of providing support and advice to the Joint Governance Committee. The group met virtually four times during 2021/22.

The OWG is comprised of practitioners and Section 151 officers from all eight Constituent Authorities. The Chair of the OWG is Chris Moore, Section 151 Officer of Carmarthenshire County Council (Host Authority). OWG meetings are generally held in Cardiff but due to Covid 19, all OWG meetings in 2021/22 have been held virtually.

The OWG, in a similar fashion to the JGC, has a stellar track record in terms of engagement and attendance. There is at least one representative from each Constituent Authority in attendance at all OWG meetings and it is common to see both the Section 151 Officer and Practitioner for all eight Constituent Authorities in attendance.

The WPP's providers and external advisors also attend OWG meetings and provide support or advice when required. At present the WPP's Operator, Oversight Advisor and Investment Management Solutions Provider attend all OWG meetings. Other parties such as cost transparency advisors, LAPFF, bfinance and Audit Wales representatives are also invited to attend OWG when required.

In addition to the OWG meetings, the members of the OWG participate in 2-hour virtual meetings on a fortnightly basis. The virtual meetings are used to deal with any matters that arise in between formal OWG meetings, they are also used to progress work between OWG meetings. These fortnightly calls are an invaluable mechanism for progressing work and fostering collaboration between the Constituent Authorities and the WPP's suppliers.

The WPP has also established a number of 'sub-groups', these sub-groups are generally formulated to progress or develop certain elements of the WPP's workplan. All of the sub-groups are made up from a sub-section of the OWG and are responsible for formally reporting back to the entire OWG. Example of WPP sub-groups include;

- The Private Market Sub-Group – which is responsible for formulating and developing the WPP's Private Market Sub-Funds.
- The Risk Register Sub-Group – which is responsible for maintaining the WPP Risk Register and reporting back any changes or developments to the OWG and JGC on a quarterly basis.
- The Responsible Investment Sub-Group – which is responsible for overseeing all Responsible Investment matters within the WPP, including policy development and reviews, external reporting, and scrutiny / oversight.

Host Authority

Carmarthenshire County Council has been appointed as the Host Authority for the Wales Pension Partnership. The Host Authority is responsible for providing administrative and secretarial support to the JGC and the OWG, and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The role of the Host Authority is set out in Section 6 of the IAA.

The Host Authority's role is critical to the WPP, it is responsible for the day to day management of the Pool and takes ownership of managing and progressing the WPP's activities and endeavours. The size and nature of the Pool means that the Host Authority is responsible for a broad, and ever changing, range of activities and responsibilities, these range from organising and facilitating the WPP's trainings days to formulating and submitting the WPP's 'Pooling Update' submissions to the Department for Levelling Up, Housing and Communities & Local Government.

The Host Authority is the main point of contact for all WPP related questions and is also tasked with maintaining the WPP's communication methods (e.g., Website and LinkedIn). The Host Authority has a large internal team from which in can extract resources and expertise to help it meet its responsibilities. However, the core members of the Host Authority team are Chris Moore, Anthony Parnell and Tracey Williams.

Monitoring Officer

The Monitoring Officer Role (Head of Administration & Law) is currently carried out within the Host Authority (Carmarthenshire County Council). The Monitoring Officer is responsible for maintaining the IAA to ensure that it reflects up to date legislative requirements and the WPP's Governance needs and is also responsible for ensuring that the provisions are fully complied with at all levels. The Monitoring Officer attends all JGC meetings.

The Monitoring Officer is well placed to play a proactive role in supporting Members and Officers in both formal and informal settings to comply with the law and with the WPP's own procedures. As the Head of Service with ultimate responsibility for the Democratic Services Unit, the Monitoring Officer is also responsible for the formal recording and publication of the democratic decision-making process.

The Monitoring Officer works closely with the Section 151 Officer in accordance with the provisions of the Local Government and Housing Act 1989 and will report to the Joint Governance Committee if they consider that any proposal will give rise to unlawfulness.

Section 151 Officer

Carmarthenshire County Council's Director of Corporate Services is the responsible officer for the administration of the WPP's affairs under Section 151 of the Local Government Act 1972 and carries overall responsibility for the financial administration of the WPP.

Link Fund Solutions Ltd (The Operator)

The WPP has designed an operating model which is flexible and able to deliver value for money. Link Fund Solutions Ltd (Link) have been appointed as the external Operator and, with the support of Russell Investments, they deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities.

There is an Operator Agreement in place with Link Fund Solutions which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The JGC and OWG, with the support of its Oversight Advisor, oversee the work that Link Fund Solutions carry out on behalf of the WPP. The WPP's Operator Engagement Protocols have also been put in place to ensure that there is sufficient levels of direct engagement between the Operator and the individual Constituent Authorities.

Link Fund Solutions carry out a broad range services for the WPP, these include:

- Facilitating Investment Vehicles & Sub-Funds
- Link logoPerformance reporting
- Transition implementation
- Manager monitoring and fee negotiations
- Risk reporting

LINK Fund Solutions

Russell Investments (Investment Management Solutions Provider)

In collaboration with Link Fund Solutions, Russell Investments provide investment manager solution services to the WPP. Alongside Link Fund Solutions, they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles. Russell's remit includes advising Link Asset Services and WPP on efficiencies around portfolio construction which includes manager selection. Link Fund Solutions continues to work with Russell Investments, where applicable, to further reduce WPP's costs through multi-manager structures, currency managements solutions, portfolio overlays, transition management and other execution services.

Russell Investments

Hymans Robertson (The Oversight Advisor)

Hymans Robertson have been appointed the Oversight Advisors for the WPP. Hymans Robertson's role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support. They attend all OWG and JGC meetings.

Burges Salmon (Legal Advisor)

Burges Salmon provide Legal advice, as and when required. Burges Salmon's remit requires them to provide expertise in FCA regulated funds, tax, public sector procurement and local government. In addition, Burges also advise on governance arrangements, building complex procurement specifications, advising on the procurement process and evaluation criteria. They also support WPP in finalising legal agreements and formulating FCA prospectus applications.

Northern Trust (The Custodian)

Northern Trust provides services including securities lending, fund administration, compliance monitoring and reporting for the Wales Pension Partnership.

Robeco UK (Proxy Voting & Engagement Provider)

Robeco UK have been appointed the WPP's Voting and Engagement provider and they assist the WPP in formulating and maintaining a Voting Policy and Engagement Principles that are in keeping with the Welsh Constituent Authorities' membership of the Local Authority Pension Fund Forum ('LAPFF'). Further, Robeco takes responsibility for implementing the Voting Policy across WPP's £5bn active equity portfolio as well as reporting to WPP and the underlying Funds.

Risks

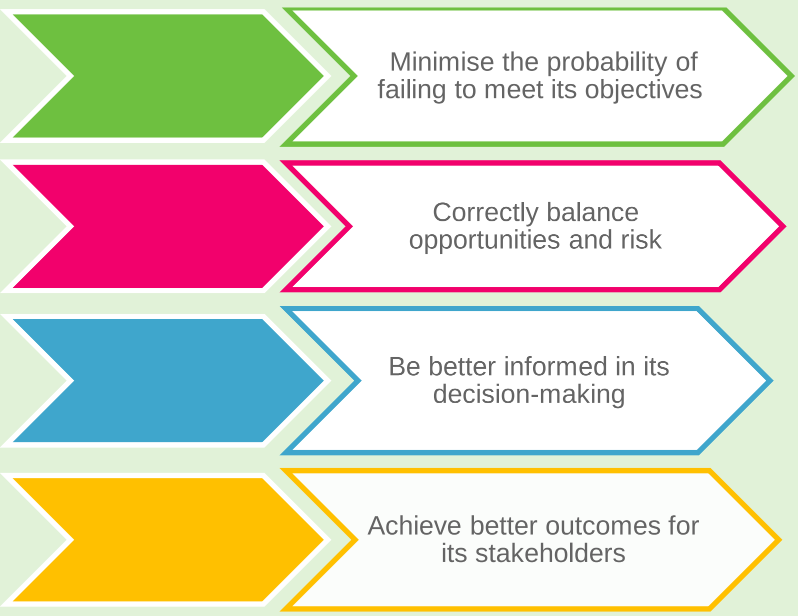
The Wales Pension Partnership ('WPP') recognises that it faces numerous risks which, if left unmanaged, can limit the WPP's ability to meet its objectives and to act in the best interest of its stakeholders and beneficiaries. However, the WPP also understands that some risks cannot be fully mitigated and that in these instances' risks need to be embraced through active and effective management.

Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy. This strategy will be embedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.

The WPP's risk strategy seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without fair warning. To reflect this belief, the WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders. The Risk Policy outlines how we identify, manage and monitor risks.

In addition, we have developed a risk register to monitor and manage potential risks and a dedicated Risk Sub-Group (made up of Officers from the Constituent Authorities and WPP's Oversight Advisor, Hymans Robertson) has been established to maintain and evaluate the WPP's Risk Register on a quarterly basis.

To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to risk. The extent to which the WPP is able to effectively balance risk and return will depend on the success of its Risk Policy. It is critical that prior to making decisions the WPP understands the associated risks and considers the means by which these risks could be managed. Effective identification, understanding, management and monitoring of risks will allow the WPP to:



The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives. The WPP Business Plan is an additional means through which the WPP will give special recognition to risks that pose a material threat to the delivery of its objectives and the actions required to manage these risks.

A detailed management strategy and action plan is in place to manage the risks. One of the risks that was considered significant last year, 'WPP suppliers fail to enact the WPP's decisions in a timely and effective manner', is no longer considered as significant due to the mitigating actions that have been carried out, including frequent and extensive monitoring & engagement with suppliers. Another risk considered significant last year, 'The WPP fails to facilitate investment solutions that enable the Constituent Authorities to meet their investment strategy and objectives', is no longer considered a significant risk due to an increase in the target score, which was felt to be a more realistic target, taking into account external factors and the changing needs of Constituent Authorities.

At present, the WPP's most significant risks (risks with a risk score of 10 or more and where the current risk score exceeds the target risk score) are:

- WPP Sub-Funds fail to achieve their target investment returns
- Difference of opinion / or views within the WPP cannot be reconciled.
- The WPP's Operator fails to deliver on its contractual obligations or stops providing Operator services due to exiting the market or regulatory restrictions
- The WPP fails to identify and take measures to remedy malpractice

During the course of the next twelve months the WPP will prioritise the management of these risks with the aim of reducing the possibility of these risks occurring and the impact that they can have on the WPP. The table below summarise how these risks are currently managed and outlines what actions will be completed during the next 12 months.

Risk:	Current Management Strategy:	Action for the next 12 months:
WPP Sub-Funds fail to achieve their target investment returns	• Ongoing monitoring of investment performance, market developments and economic outlook reported by the Investment Manager and the Operator and discussed at OWG meetings • The Operator/ the Investment Manager engagement with Investment Managers and ongoing reviews of their process • Bi-annual sub-fund benchmarking reports discussed at OWG & JGC • An 'ACS responsibilities matrix' which formalises targeted & benchmark returns, along with other aspects of sub-fund management is in place • On-going management of the WPP manager Engagement Schedule, which includes Manager days hosted by the Operator/ the Investment Manager for OWG/Constituent Authorities Pension Fund Committees • Monitoring when and why rebalancing within Russell managed WPP Sub-funds has taken place via notification mechanisms.	• Need to monitor the progress of the risk controls that are currently in place over a 12 month cycle. • Consider any further mitigations that need to be planned or implemented
Difference of opinion / or views within the WPP cannot be reconciled.	• High levels of communication between decision makers (and Constituent Authorities) • Codified set of agreed/ united WPP objectives and beliefs • Climate risk policy and Responsible Investment policy in place • Regular scheduled meetings, and ad hoc meetings if required, to facilitate the sharing and reconciliation of views (for example, via monthly Responsible investment sub-group) • Oversight Advisor in place to provide advice on governance structure	The WPP is aware that Climate Risk and Responsible Investment is an area which continues to be constantly and quickly evolving and that the requirements/ needs of the Constituent Authorities are consequently changing significantly and frequently. The WPP is continually trying to reduce the probability of this risk occurring by increasing its levels of consultation with the Constituent Authorities. The WPP is developing a consultation process to agree key engagement & voting themes across the Constituent Authorities to ensure consensus on key priorities

	• Engagement with relevant bodies on good governance guidance and best practice • Ongoing review of governance structure • Democratic decision-making process in place • Clear escalation process in place for obtain consent if mutual agreement cannot be reached	
The WPP's Operator fails to deliver on its contractual obligations or stops providing Operator services due to exiting the market or regulatory restrictions	• Designated Operator Oversight Advisor in place • Intensive engagement protocols with Operator • Engagement with the wider Operator market (and other suitable suppliers) is built into the WPP business plan • The WPP has formulated contracts that have natural break or exit points and minimal exit fees • Operator Workplan is in place to monitor the various workstreams relating to Operator Oversight • The FCA maintains a list of replacement ACS Operators which could step in if the WPP's Operator were to exit the market	• The OWG is continuing to monitor any developments resulting from the FCA's review of the ACD Operator market. • The Host Authority, with support from its Operator Oversight Advisor, is continuing to have regular review meetings with the Operator. The main workstream currently being progressed during these review meetings is the formulation of an enhanced Operator Management Information Reporting Pack. Progress is being made but further action is required. • The OWG will continue to ask the Operator for regular updates on the progress of the Scheme Implementation Deed Link Group has entered into with Dye & Durham • Consider any further mitigations that need to be planned or implemented
The WPP fails to identify and take measures to remedy malpractice	• The WPP has adopted a governance framework with several checks and balances which are designed to limit the potential for malpractice to occur • Multiple means of communication are in place within the WPP with a view to encouraging information sharing and the ability to flag any potential concerns • Monitoring officer in place at the Host Authority • The WPP has a Conflict of Interest Policy in place	The WPP will: • Develop a WPP whistle blowing policy • Carry out ongoing training on identifying malpractice and how to safely raise any potential malpractice concerns • Ensure that there is enough resources and expertise available to investigate and deal with any potential cases of malpractice • Continue to encourage an environment in which all personnel are encouraged to speak freely and openly

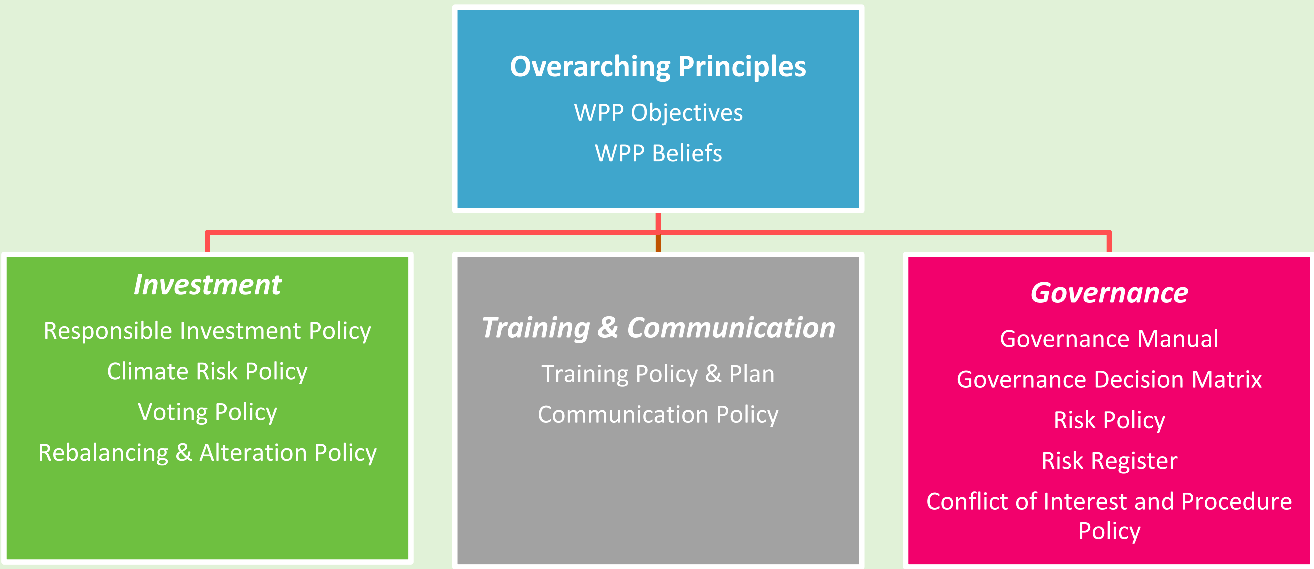
The WPP Risk Policy and Risk Register are both publicly available on the WPP's website.

WPP Policies and Processes

The WPP believes that good governance should lead to superior outcomes for the WPP's stakeholders. In recognition of this belief, the WPP has devoted resources to developing a robust and extensive governance structure and framework. A key part of WPP's governance structure is focused on developing policies and procedures, in consultation with the Constituent Authorities. In all instances the WPP's policies and procedures have been developed to either complement or subsidise the existing procedures and policies of the Constituent Authorities.

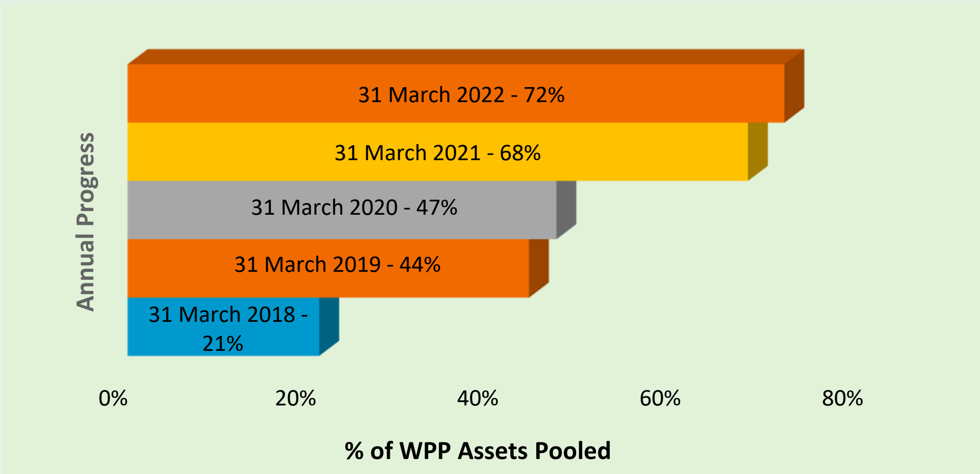
The WPP understands the importance of formulating and codifying its policies and procedures. This process allows the WPP, and the Constituent Authorities, to:

The WPP's key policies, registers and plans are listed below and can be found on the WPP website. The policies and procedures outlined below are reviewed on a regular basis and the WPP will continually assess whether any additional policies, registers or plans are required. The WPP workplan includes a number of additional governance documents that will be developed during the next three years. These will be made available on the WPP website once completed.

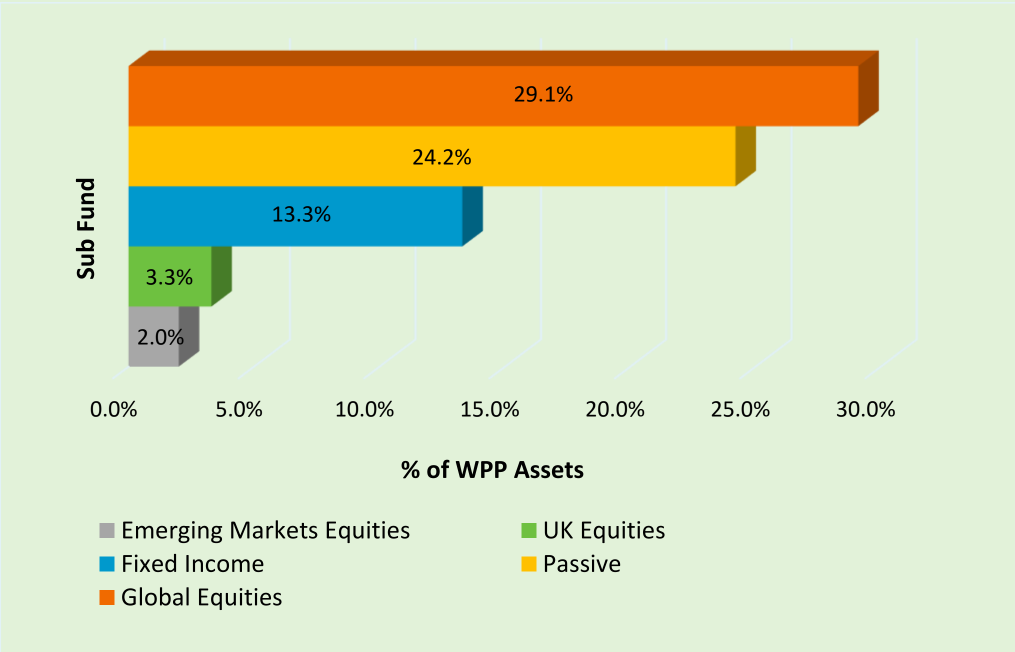


Pooling Progress

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. We have made significant progress towards delivering on this objective. The launching of the WPP's four active equity sub-funds, five Fixed Income sub-funds alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 72% of assets, as illustrated in the graph below:



*Please note that this includes the WPP's passive holdings



The WPP is proud that despite only being established in 2017 it has already managed to pool over 70% of the Constituent Authorities' assets. It is pleasing to see that all eight of the Constituent Authorities have made use of at least one of the sub-funds. The pooling progress to date has ensured that the WPP has been able to provide significant benefits of scale to the Constituent Authorities via cost savings and improved value for money. See page 28 for more detail.

The WPP will continue to develop sub-funds for the benefit of the Constituent Authorities with the Sustainable Equity, Private Debt and Infrastructure sub funds due to be launched in 2022/23.

WPP Statement of Accounts and Financial Performance

BUDGET

The following table shows the WPP's actual expenditure during 2021/22 compared with the approved budget for the year, detailing any variances. The Budget was approved by the Joint Governance Committee at the Joint Governance Committee meeting on 24 March 2021.

Wales Pension Partnership 2021/22	Budget (£)	Actual (£)	Variance (£)
Gross Expenditure			
Employee costs [1]	84,000	64,360	19,640
Host Authority costs [2]	18,600	18,490	110
Host Authority Support Services [3]	79,183	79,183	0
Total Host Authority Gross Expenditure [4]	**181,783**	**162,033**	**19,750**
External Consultants [5]	680,000	915,478	(235,478)
Total Gross Expenditure	**861,783**	**1,077,511**	**(215,728)**

Notes:
1. This includes staff employed to work solely on the WPP. The Budget includes a Senior Financial Services Officer (1fte) and an Assistant Accountant (1fte for 6 months)
2. These costs include staff travelling expenses, subsistence and meeting expenses, admin, office and operational consumables, website (development and ongoing costs), audit fees and translation services
3. These are central recharges from the Host Authority and includes costs apportioned for the Section 151 Officer, Monitoring Officer, Treasury & Pension Investments Manager, Democratic Services Officer and also Premises and HR support
4. The total Host Authority expenditure is funded equally by all eight Pension Funds and are recharged on an annual basis
5. External Consultants include Investment & Legal Consultants, these costs are also funded by all eight Pension Funds

There was an overspend of £216k for the year, which was mainly due to:
- Employee costs – Assistant Accountant not appointed
- External Consultants – Work completed by external consultants was greater than anticipated, this has been reflected in the budget for 2022/23.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

This Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

2020/21 (£)	Description	2021/22 (£)
	Expenditure	
59,455	Employee costs	64,360
13,556	Host Authority costs	18,490
556,177	External Advisor costs *	915,478
77,063	Host Authority Support Service costs	79,183
706,251	**Total Operating Expenditure**	**1,077,511**
	Income	
(706,251)	Constituent Authority Recharges **	(1,077,511)
(706,251)	**Total Operating Income**	**(1,077,511)**
0	**Total Comprehensive Income and Expenditure**	**0**

* The budget for External Advisor costs increased in 2021/22

** These costs are funded equally by all eight LGPS Funds and are recharged on an annual basis.

BALANCE SHEET

The Balance Sheet shows the assets and liabilities of the WPP as at 31 March 2022.

31st March 2021 (£)	Description	31st March 2022 (£)
	Current Assets	
381,767	Short Term Debtors	501,316
381,767	**Total Current Assets**	**501,316**
	Current Liabilities	
(188,185)	Cash and Cash Equivalents	(317,106)
(193,582)	Short Term Creditors	(184,210)
(381,767)	**Total Current Liabilities**	**(501,316)**
0	**Total Net Assets**	**0**

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the WPP during the reporting period.

2020/21 (£)	**Description**	**2021/22 (£)**
	Cashflow from operating activities	
0	Net (surplus) / deficit on the provision of services	0
	Adjustments for:	
(14,278)	(Increase) in trade and other debtors	(119,549)
49,809	Increase in trade and other creditors	(9,372)
35,531	**Net Cash from operating activities**	**(128,921)**
	Net (Increase) / Decrease in cash and cash equivalents	
(223,716)	Cash & Cash Equivalents as at 1 April	(188,185)
(188,185)	Cash & Cash equivalents as at 31 March	(317,106)
35,531	**Cash and cash equivalents as at 31 March**	**(128,921)**

NOTES TO THE ACCOUNTS

Statement of Accounting Policies

General

The Statement of Accounts summarises the transactions of the Wales Pension Partnership (WPP) for the 2021/22 financial year and its position at the year ended 31 March 2022. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Going Concern

The Financial Statements have been prepared on a going concern basis.

Accruals of Income and Expenditure

Financial Statements have been prepared under the Accruals concept of accounting which requires that both income and expenditure must be recognised in the accounting periods to which they relate rather than on a cash basis.

Cash and Cash Equivalents

The WPP itself does not operate or control its own individual bank account. Carmarthenshire County Council in its role as the Host Authority administers all cash and cash equivalent transactions on behalf of the WPP.

Provisions, Contingent Assets and Liabilities

The WPP have not recognised any provisions, contingent assets or contingent liabilities in the accounts.

Value Added Tax (VAT)

Transactions are shown net of VAT, all VAT is accounted for by Carmarthenshire County Council.

Employee Benefits

Direct employees supporting the activities of the WPP are contractually employed by Carmarthenshire County Council, with additional support being provided by Carmarthenshire on a recharge methodology. Employee remuneration costs will be disclosed within the Financial Statements of Carmarthenshire County Council.

Investments

No investments are held directly with the WPP. The sub funds opened as part of the pooling arrangement sit within the financial statements of the respective pension funds. The Operator costs and other fees relating to these investments are shared between the eight LGPS Funds based on their individual percentage share of WPP assets and are deducted directly from the Net Asset Value (NAV). These are not cash transactions.

Short Term Debtors

2020/21 (£)	Description	2021/22 (£)
380,854	Constituent Authorities	499,432
913	Prepayments	1,885
381,767	**Total Short-Term Debtors**	**501,316**

Short Term Creditors

2020/21 (£)	Description	2021/22 (£)
103,500	Trade Creditors	5,448
90,082	Accruals	178,762
193,582	**Total Short-Term Creditors**	**184,210**

Audit Costs

In 2021/22 the WPP incurred the following fees relating to financial audit and inspection, payable to the Wales Audit Office.

2020/21 (£)	Description	2021/22 (£)
2,590	Audit Fees	5,548
2,590	**Total External Audit Fees**	**5,548**

Related Party Transactions

WPP is required to disclose material transactions between partners, bodies, individuals or related parties, that could potentially influence the decisions of the JGC or be influenced by the JGC. The WPP has arrangements in place requesting members and Officers to identify and disclose related party transactions. These interests are declared and assessed at the start of each JGC meeting.

Any transactions between parties outlined above will require disclosure to allow the users of these Financial statements to assess the extent to which the JGC's independence could potentially be impaired or influenced by another party's ability to transact with the Committee.

During 2021/22 Carmarthenshire County Council, as Host Authority for the WPP raised debtor invoices to all eight LGPS pension funds to recover the running costs of the WPP, as detailed in the CIES. The tables below show the total value of transactions raised during 2021/22 and the debtor balances outstanding as at 31 March 2022.

2020/21 (£)	Description	2021/22 (£)
88,281	Cardiff & Vale of Glamorgan Pension Fund	134,689
88,281	Clwyd Pension Fund	134,689
88,281	Dyfed Pension Fund	134,689
88,281	Gwynedd Pension Fund	134,689
88,281	Powys Pension Fund	134,689
88,281	Rhondda Cynon Taf (RCT) Pension Fund	134,689
88,281	City and County of Swansea Pension Fund	134,689
88,281	Greater Gwent (Torfaen) Pension Fund	134,689
706,251	**Total Related Party Transactions**	**1,077,511**

2020/21 (£)	Description	2021/22 (£)
52,583	Cardiff & Vale of Glamorgan Pension Fund	71,347
52,583	Clwyd Pension Fund	71,347
52,583	Gwynedd Pension Fund	71,347
52,583	Powys Pension Fund	71,347
52,583	Rhondda Cynon Taf (RCT) Pension Fund	71,347
65,356	City and County of Swansea Pension Fund	71,347
52,583	Greater Gwent (Torfaen) Pension Fund	71,347
380,854	**Related Party Transactions outstanding at year end**	**499,432**

Carmarthenshire County Council charged the WPP for administration and support services during 2021/22. Invoices have also been received from Gwynedd County Council for services they have provided in the form of translation services. The table below shows the value of these services and the creditor balances outstanding as at 31 March 2022.

Related Party Transactions - Creditors	Value of services provided during 2021/22 £	Balance outstanding as at 31 March 2022 £
Carmarthenshire County Council	147,226	0
Gwynedd County Council	6,089	1,783
Total	**153,315**	**1,783**

The Director of Corporate Services and the Monitoring Officer are both Senior Officers within Carmarthenshire County Council.

Prior Period Adjustment

No Prior Period adjustments were made during the financial year 2021/22.

Investments and Performance

The WPP's Constituent Authorities have total assets of circa £23.1bn (as at 31 March 2022), £11bn of which are invested in WPP's existing sub-funds, outlined in the table below.

Sub Fund	Asset Value *	Managed by	Performance Benchmark	Participating Funds **	Underlying Investment Managers
Global Growth	£3.303 bn	Link Fund Solutions	MSCI ACWI ND	RCT 47% Dyfed 30% Gwynedd 13% Cardiff 6% Powys 4%	Baillie Gifford, Veritas and Pzena
Global Opportunities	£3.388 bn	Russell Investments	MSCI ACWI ND	Swansea 39% Torfaen 16% Cardiff 16% Gwynedd 13% RCT 12% Clwyd 4%	Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ, Nissay and Oaktree
UK Opportunities	£0.730 bn	Russell Investments	FTSE All Share	Cardiff 68% Torfaen 32%	Majedie, Lazard, Baillie Gifford, Ninety-One, J O Hambro and Liontrust
Emerging Markets	£0.465 bn	Russell Investments	MSCI Emerging Markets	Clwyd 47% Cardiff 25% Torfaen 15% Gwynedd 13%	Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree
Global Credit	£0.758 bn	Russell Investments	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	Torfaen 35% Dyfed 33% Powys 28% Cardiff 4%	Western, Metlife, Fidelity and T Rowe Price
Global Government	£0.507 bn	Russell Investments	FTSE World Government Bond Index (GBP Hedged)	Torfaen 52% Cardiff 48%	Bluebay and Colchester
Multi-Asset Credit	£0.723 bn	Russell Investments	ICE BofA SONIA + 4% p.a.	Clwyd 34% Gwynedd 27% Cardiff 21% Powys 9% Swansea 9%	ICG, Man GLG, BlueBay, Barings and Voya
UK Credit Fund	£0.574 bn	Link Fund Solutions	ICE BofA ML Eur-Stg plus 0.65%	RCT 100%	Fidelity
Absolute Return Bond Fund	£0.510 bn	Russell Investments	ICE BofA SONIA + 2% p.a.	Gwynedd 69% Powys 18% Swansea 13%	Wellington, Putnam, Aegon and Insight

* Asset Under Management (AUM) value as at 31 March 2022
** % holdings as at 31 March 2022

In addition to the sub-funds outlined above the WPP's Constituent Authorities also hold passive investments with BlackRock Asset Management. The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP Authorities in the form of insurance policies. The passive investments are as follows:

Constituent Authority	Asset Value as at 31/3/22	% of each Constituent Authorities' assets
Cardiff & Vale of Glamorgan	£0.616 bn	23%
Clwyd	£0.134 bn	6%
Dyfed	£1.251 bn	39%
Gwynedd	£0.786 bn	28%
Powys	£0.246 bn	31%
RCT	£0.757 bn	17%
Swansea	£0.867 bn	30%
Greater Gwent (Torfaen)	£0.941 bn	25%
Total	**£5.598 bn**	

During 2022/23, the WPP will be launching the Private Debt and Infrastructure sub-funds, as well as a Sustainable Active Equity sub-fund.

Investment Performance

	WPP 12-month performance to the 31 March 2022 (Net of Fees)			
	Inception Date	**Fund %**	**Benchmark %**	**Relative %**
Equity sub-funds				
Global Growth	6 February 2019	2.61	12.42	(9.81)
Global Opportunities	14 February 2019	10.84	12.42	(1.58)
UK Opportunities	11 October 2019	1.10	13.03	(11.93)
Emerging Markets *	29 October 2021	(5.94)	(5.36)	(0.58)
Fixed Income sub-funds				
UK Credit	19 August 2020	(3.42)	(4.45)	1.03
Global Government Bond	19 August 2020	(3.70)	(4.17)	0.47
Global Credit	20 August 2020	(4.29)	(5.10)	0.81
Multi-Asset Credit Fund	11 August 2020	(2.28)	4.14^	
Absolute Return Bond	30 September 2020	0.42	2.14^	

* Please note that the performance is since inception.

^ These represent the performance targets of the Mutil-Asset Credit and Absolute Return Bond Funds

The table above represents sub funds over the past 12 months which is considered too short a period over which to evaluate investment performance. Longer term investment performance is the priority and this is monitored and evaluated to ensure the ongoing suitability of all sub funds.

The Equity sub-funds underperformed in a volatile market environment. Despite a fragmented start, the continued rollout of Covid-19 vaccines enabled the broader opening of the global economy. This helped corporate earnings to pick up and commodity prices to strengthen on the back of improving demand. Combined with ongoing fiscal support and higher economic activity, inflation data rose swiftly, which worried investors and forced major central banks to turn less accommodative. The first quarter of 2022 marked one of the worst quarters for financial markets since the start of the Covid-19 pandemic. Market volatility was driven in large part by Russia's invasion of Ukraine and escalating inflation. Small capitalisation stocks – an area of the market preferred by the Equity sub-funds – were significantly out of favour for the period, particularly within the UK. Within the UK Opportunities sub-fund, underweights to the largest market capitalisation companies as well as to the strong-performing energy and health care sectors, were key headwinds. On a global basis, defensive styles, low volatility, quality and large caps significantly outperformed. This benefitted some of the underlying manager strategies but was negative for wider sub-fund positioning. Emerging Markets suffered from wider investor uncertainty. In the period since inception, the sub-fund benefitted from an underweight to and effective selection within China. However, underweights to oil exporting countries detracted in a period where the oil price rallied.

The WPP Global Government and Global Credit Fixed Income sub-funds outperformed their benchmarks, although the Multi-Asset Credit and Absolute Return sub-funds lagged their interest rate performance targets in what was a broadly negative period for fixed income markets. Government bonds sold off, with yields increasing significantly towards the latter-end of the period as inflation rose to decade-highs, leading to the Bank of England and the US Federal Reserve to raise interest rates. Segments of the US Treasury yield curve also inverted in late March 2022, with investors concerned of the trajectory for future economic growth. The positioning of the government bond sub-funds suited this environment, with underweight exposure to US and UK duration beneficial to relative performance. Within credit markets, global investment-grade (IG) and high yield (HY) credit also sold off, with spreads widening over the 12-month period. However, continued accommodative monetary policy, robust earnings growth and fiscal stimulus programmes supported credit markets early in the period. The more credit-orientated WPP Fixed Income sub-funds benefitted from exposure to HY corporate credit during this time. Russia's invasion of Ukraine weighed heavily on European credit, which suited an underweight to European IG credit. US HY outperformed other areas of the market which also suited sub-fund positioning. Exposure to select securitised bonds, particularly within the US, was a further relative contributor.

The Officers Working Group receives quarterly, six monthly and annual performance reports. The Group reviews and challenges the performance of Investment Managers on behalf of the WPP. The WPP hosts regular manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at a local level, this will include manager attendance at Pension Committees. Furthermore, the Investment Managers of the Sub-Funds hold quarterly investors calls where members of the OWG are able to challenge the Investment Manager and the underlying Managers.

The OWG is always looking at ways to develop investment performance monitoring mechanisms with a key focus on ESG and Climate Risk metrics. Hymans Robertson produce quarterly Climate Risk and ESG reports for the equity and fixed income sub funds which draw on third party climate and ESG data. This allows the RI Working Group to scrutinise present portfolio positioning, benchmark portfolios against index comparators and determine the actions that need to be taken. These reports are presented to the OWG and JGC on a quarterly basis.

Pooling Costs and Fee Savings

There are various costs associated with pooling; there are transition costs which are one-off costs that occur at the point when the funds are transitioned into the sub-funds and there are also annual running costs. The transition costs for the sub funds which have been pooled as at 31 March 2022 are shown in the table below:

Sub-Funds	Explicit * £000's	Implicit ** £000's	Total Transition Costs £000's	Year charge occurred
Global Equities	2,197	15,009	17,206	2018/19
UK Equities	1,080	3,580	4,660	2019/20
Fixed Income	817	7,566	8,383	2020/21

* Explicit costs include transition manager fees, trading commissions and taxes.

** Implicit costs include opportunity costs and market impact.

There were no transition costs in 2021/22. Establishing the Emerging Markets sub fund did not incur transition costs as the mandate was cash funded.

The total annual running costs for 2021/22 equates to £5,336k which includes the host authority and external provider costs.

Through pooling and economies of scale, lower Investment Management fees have resulted in cost savings for Constituent Authorities. The table below illustrates the annual cost savings for WPP's Global Equity Sub-Funds, UK Opportunities Equity Sub-Fund, Emerging Markets Sub-Fund and the Fixed Income Sub-Funds:

	Asset Value as at 31/3/22 £000's	Gross Annual Savings * £000's	Savings as a % of Asset Value
Global Equities	6,691,435	7,253	0.11%
UK Equities	730,278	341	0.05%
Emerging Markets **	464,615	656	0.14%
Fixed Income	3,071,942	0	0.00%
Total	**10,958,270**	**8,250**	**0.08%**

* Please note that Gross figures do not include the transition and running costs

** Part year – the fund was launched in October 2021, see table on page 26

The data above shows that although there are high initial costs for transitioning individual fund's assets into the pool, the annual savings far outweighs the annual running costs, £2,914k (£8,250k less £5,336k) in 2021/22 (excluding transition costs).

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Passive Investments, as detailed on page 26 also provides a total fee saving of c£2m per annum.

Responsible Investment

Responsible Investment (RI) – alongside consideration and evidential management of Environmental, Social and Governance (ESG) issues – has been a key priority for the WPP since we were established in 2017. Various activities have been carried out over the year to embed RI practices in all that we do, which we believe will result in better outcomes for the Pool's stakeholders. Through Hymans Robertson, for 2022/23, we have increased our resourcing in this area by having a dedicated RI specialist who will work closely with the WPP on all RI related matters and represent the WPP at external events.

We are delighted to confirm that the Pool was successful in its first annual submission to be a UK Stewardship Code signatory (for the reporting year to 31 March 2021), with work continuing to maintain our signatory status. The 2021/22 report is due to be submitted by the end of October 2022. Given the huge progress we made in 2020/21, this year has really been one of consolidation, especially on how our pooling arrangement can better meet the needs of our beneficiaries.

Following the establishment of the WPP RI Sub-Group in 2020, in order to support the development and implementation of the WPP's overall RI activity and policies, further work was taken to confirm the Sub-Group's structure and forward plan. For granularity and focus, the decision was taken to split the meetings of the Sub-Group between: (1) oversight and scrutiny, including discussions around voting metrics and data; (2) policy development and reporting, including discussions around common climate goals and reporting on stewardship activity.

Over the reporting period, the RI Sub-Group carried out various activities and discussions, including:

- Formulating an Annual WPP RI Workplan that allows the WPP to progress its RI objectives, including training needs
- Working with WPP's appointed investment managers, voting & engagement (V&E) provider, advisers and other service providers to ensure that WPP's RI, Voting and Climate Risk policies are effectively implemented
- Reviewing our RI, Voting and Climate Risk policies – with input from our service providers – to ensure they continue to meet the Pool's needs
- Monitoring RI activity, including ESG metrics and V&E reporting, and challenging where necessary
- Considering market and regulatory developments to ensure that WPP can take evolving best practice into account
- Discussions on climate goals, including decarbonisation objectives and the suitability of climate metrics
- Discussions on relevant ESG themes, including: human rights, the Occupied Palestinian Territories, factory farming, nuclear energy and stock-lending
- Representing the WPP on RI matters, including acting as a spokesperson in external forums and in discussion with non-profits, such as our annual discussion with Friends of the Earth Cymru

Reporting, that allows the WPP to monitor and manage RI and climate risk, continued with the development of an appropriate schedule to facilitate greater predictability around reporting. Climate risk generally continued to be a particular focus for WPP, with work initiated on reporting in line with TCFD, ahead of expected regulatory changes, including initial discussions on appropriate climate metrics.

The decarbonisation overlay, which was launched in the previous year to reduce the levels of carbon risk within certain existing active equity Sub-Funds, was further extended to the UK Opportunities Equity Sub-Fund. In addition to this overlay and in order to provide a more RI-focused equity offering, discussions began (and were progressed over the year) in terms of establishing a Sustainable Active Equity Sub-Fund. We look forward to providing further detail on this in next year's report, but can confirm that discussions include goals on net zero, TCFD-aligned reporting and the consideration of appropriate exclusions.

Robeco continued to provide the WPP's Voting & Engagement (V&E) function, implementing voting across WPP's active equity portfolio, while also carrying out engagement activity across all the Pool's active Sub-Funds and the BlackRock passive funds. In order to better meet the reporting needs of each underlying Pension Fund within the Pool, Robeco introduced Sub-Fund-specific quarterly voting reports at the start of 2022. On this point, we have been working to align our reporting to meet the needs of the Pool's stakeholders and to avoid unnecessary overlap, including how reporting can better incorporate the WPP's voting priorities. Work is also ongoing on how to better monitor and challenge the V&E activity of Robeco to ensure this is in keeping with the recommendations of the Local Authority Pension Fund Forum (LAPFF). We will provide a further update on these latter points in next year's report.

Communications & Engagement

The WPP has a communication policy in place which sets out how the WPP will carry out its internal and external communication strategies. WPP recognises that failure to communicate effectively poses a material risk to the WPP and the best interests of the WPP's stakeholders, the consequences of which may include miscommunication, poor decision making and delayed timescales.

Over the last two years with COVID-19 restrictions in place, WPP engagement has progressed virtually. All Constituent Authorities, suppliers and other stakeholders have embraced this new way of engagement, and this has enabled important work and priorities to progress.

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP ensures that the meetings of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers are also made publicly available. Local Pension Board engagement days are also being held regularly as a means of fostering stakeholder engagement. During the year, we continued to deliver against our engagement protocols which ensures the continued engagement and collaboration amongst the WPP's Constituent Authorities and providers, this is carried out via the following engagement mechanisms:

Engagement mechanisms	Frequency
Strategic Relationship Review meeting	Bi-Annual
JGC Engagement	Quarterly
Manager Performance Meetings/ Calls	Quarterly
Training Events	Quarterly
OWG Engagement	Quarterly
Bi-Weekly Meetings	Every 2 Weeks
Pension Fund Committees	Annual
Manager Engagement Days	Annual
Member Communications	Annual
Pension Board Engagement	Every 6 Months
Engagement via the website & LinkedIn	Continuous
Constituent Authority Annual Requirements & Ambitions Questionnaire	Annual

The WPP website is regularly updated and remains an excellent tool to: learn and understand more about the pool; keep track of our recent activities; and discover our policies, procedures and governance arrangements. The website can be found here: **https://www.walespensionpartnership.org/**

WPP also has a LinkedIn page which is regularly updated:
https://www.linkedin.com/company/wales-pension-partnership-wpp/

The WPP will continue to develop its communication and engagement methods.

Training

The WPP has a training policy which sets out the WPP's approach to training and requirements. The policy outlines the strategy that WPP has put in place to ensure that its personnel and decision makers have the required knowledge base to fulfil their roles and make decisions that will deliver the best possible outcomes for the WPP's stakeholders. WPP's training policy and annual training plans are designed to supplement existing Constituent Authority training, it is not intended to replace or override the need for and importance of local level training. Local level training needs will continue to be addressed by the Constituent Authorities while the WPP will offer training that is relevant to the WPP's pooling activities.

During 2021/22, the WPP continued to hold its training sessions virtually with six training events being held over the year. They were open to Constituent Authority Pension Committee and Pension Board members, as well as Officers and JGC members, with excellent attendance at all sessions. The topics covered during 2021/22 were:

- Private Market Asset Classes & Implementation
- Private Markets Fund Wrappers & Governance
- RI Indices and Solutions
- RI Reporting
- Performance Reporting & Manager Benchmarking
- Roles & Responsibilities within the ACS
- RI – Stewardship
- Robeco – Active Ownership
- Progress of other LGPS Pools
- Collaboration Opportunities
- Good Governance
- The role of the Depository & Custodian
- Cost Transparency

In December 2021 a training requirements questionnaire/ assessment was issued to all JGC members and Officers. The topics outlined below are based on current WPP topical priorities and from an analysis of the WPP training requirements questionnaire/ assessment responses. Potential member changes following the council elections in May 2022 was also a factor in setting this year's training topics.

During 2022/23 the WPP will facilitate training on the following topics:

- Product Knowledge
    - Private Market Asset Classes & the role of the Allocator, and
    - Active Sustainable Equities
- Pool Knowledge
    - Governance & Administration
    - Roles & Responsibilities
- Responsible Investment
    - What RI means for the WPP
    - Stewardship Code and TCFD Reporting
- Market Understanding
    - Progress of other LGPS pools
    - Collaboration Opportunities

The Training Policy and full WPP Training Plan for 2022/23 can be found on the WPP website.

Conclusion

As you can see the WPP has had another very productive year. With the ongoing challenges of Covid19, remote working continued, and hybrid working is now our new normal and teamwork is even more important at every level.

We would like to thank all of the WPP's Personnel, the Constituent Authorities, advisors and providers who have made this possible. The Officers Working Group and Joint Governance Committee also deserve a special mention for their work and support throughout the year. While it is important to recognise the achievements of the last 12 months our focus has already shifted to the 12 months ahead. The work due to be carried out over the next 12 months, will see the WPP continue to develop further as a Pool so that it can continue to meet and facilitate the interests and needs of the Constituent Authorities. A workplan of the areas that WPP will focus on during 2022/23 has been developed and forms part of our 2022-2025 business plan which is available on our website.

Particular highlights over the next year will include:

- Launching the Sustainable Equity Sub-fund
- Launch of the initial Private Market Sub-funds - Private Debt and Infrastructure and start formulating WPP's property requirements
- Maintain signatory to the UK Stewardship Code and commence TCFD reporting
- Formulate WPP's Engagement Priorities and Implementation Framework
- Development of a WPP Whistleblowing Policy and Business Continuity Plan

We hope you enjoyed this year's Annual Report, and we look forward to being able to provide you with a further update next year. Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

Contact Details

If you require further information about anything in or related to this business plan,

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Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website and LinkedIn page can be found here:

https://www.walespensionpartnership.org/

https://www.linkedin.com/company/wales-pension-partnership-wpp/

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