

CLWYD PENSION FUND COMMITTEE
29 NOVEMBER 2023

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held as a hybrid meeting at County Hall at 9.30am on Wednesday, 29 November 2023, with remote attendance available via Zoom.

PRESENT: Councillor Ted Palmer (Chairman), Councillor Dave Hughes (Vice-chair, present until 10:15am)

Councillors: 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), Mark Morgan (Independent member of Flintshire County Council Standards Committee), Neal Cockerton (Chief Executive, Flintshire County Council)

APOLOGIES: Councillor Anthony Wedlake (Wrexham County Borough Council), Councillor Gwyneth Ellis (Denbighshire County Council), Councillor Dave Hughes (present until 10:15am)

Advisory Panel comprising: Philip Latham (Head of Clwyd Pension Fund), Gary Ferguson (Corporate Finance Manager), Sharon Carney (Corporate Manager, People and Organisational Development), Karen McWilliam (Independent Adviser – Aon), Paul Middleman (Fund Actuary – Mercer), Steve Turner (Fund Investment Consultant – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of Clwyd Pension Fund), Karen Williams (Pensions Administration Manager), Alison Murray (Alternate Independent Adviser – Aon), Andrew Munro (Investment Analyst – Mercer), Ieuan Hughes (Graduate Investment Trainee), and Morgan Nancarrow (Governance Administration Assistant – taking minutes).

Guest speakers presenting comprising:
Mike Whitely (Audit Wales)

The Chair introduced Mark Morgan of the Flintshire County Council (FCC) Standards Committee, who was in attendance as an independent observer. Representatives of the Standards Committee had been attending meetings across FCC throughout 2022-23, and feedback from this observation would be provided to the Chair in due course.

26. DECLARATIONS OF INTEREST (including conflicts of interest)

The Chair invited attendees to declare any potential conflicts of interest that they may have in relation to the Fund, other than those already recorded in the Fund's register.

There were no new declarations of interest.

27. MINUTES 30 AUGUST 2023

The minutes of the meeting of the Committee held on 30 August 2023 were agreed.

RESOLVED:

The minutes of 30 August 2023 were received, approved, and will be signed by the Chairman.

28. INVESTMENT STRATEGY STATEMENT

The Chair explained that the Fund has followed a thorough process in reviewing its investment strategy statement (ISS) including several training sessions, and the proposed responsible investment (RI) policy was agreed at the last Committee. Following consultation with scheme employers, proposed changes to the wording were circulated in advance of the meeting and the resulting ISS was now brought to Committee for approval.

Mr Turner of Mercer took the Committee through this report, highlighting that no comments had been received from employers in response to the consultation on the Fund's proposed RI policy. He thanked Cllr Swash for his query at the previous meeting regarding the engagement statements, which was considered after the meeting and this wording had now been clarified. The Committee were now asked to sign off on the final version of this ISS.

Mr Turner explained that Officers and Advisers had been in discussion regarding a further review to the ISS. Although the triennial formal review of the ISS was not yet due, the Committee is able to undertake a review sooner where appropriate. Mr Turner explained the rationale for this proposal, which included reviewing the Fund's overall asset allocation to:

- Finalise a plan to reach the target allocation for the WPP Sustainable Active Equity Fund;
- Ensure liquidity flexibility is sufficient to meet private market capital calls and ongoing cashflow needs;
- Ensure the level of capital is robust to maintain hedging within the Cash and Risk Management Framework, given gilt yield volatility and changes to regulations;
- Continue making progress towards climate goals.

Additionally, the Fund has a 'trigger' in place to prompt a formal review and consider potential de-risking when the funding level reaches 110%. Over the last year, the funding position has been as high as 108%, and the Fund could feasibly reach the 110% trigger in the relative near term. Such a review would involve a significant amount of work with the actuary and could take a number of months. Reviewing the position now will help the Fund to pre-empt this.

Investigative analysis will be carried out by the Investment Consultant in discussion with Officers and will be presented at the Committee training session in February 2024.

Mr Turner explained that the work involved in reviewing these aspects of the ISS would be absorbed by the existing budget, so there will be no new additional budget requirement for this.

Mr Hibbert commented that he fully supported the review, and that he viewed the 110% trigger not as a soft target, but as a hard target requiring a review of appropriate options.

Cllr Swash requested that the recommendations for this item be considered separately. He welcomed the amendment to the wording of the RI policy removing reference to 'percentage of companies' and instead refer to 'percentage of investments by value' to remove ambiguity and protect the Fund from potential gaming of percentages. However, he noted that he had voted against this policy at the previous meeting not only because of this wording but also because he did not feel that this part of the strategy takes seriously enough the Fund's responsibility in averting a climate catastrophe, and therefore he felt that he could not support this investment strategy. He also noted that the strategy contained measurements that have not yet been defined, for example stating the expectation for "fossil fuels companies to have a clearly articulated strategy to achieve net zero by 2025 or 2030" without defining criteria for this. His view remained that accepting the strategy as it is currently written is actively harmful to the planet and that by refusing to divest the comparatively small amount the Fund holds in fossil fuel polluters, the Fund plays a small but active part in global warming, and that this threat puts members' pensions at significant risk. He therefore felt that a vote in favour of this strategy would be a breach of his fiduciary duty and he intended to oppose it. However, he was happy to support the second recommendation.

A vote by show of hands was carried out for each of these recommendations.

RESOLVED:

- a) The Committee noted and approved the final ISS.
- b) The Committee noted the rationale for reviewing the investment strategy and agreed to updating the 2023/24 business plan to include a review of the investment strategy early in 2024.

29. CLWYD PENSION FUND ANNUAL REPORT AND ACCOUNTS 2022/23

Mrs Fielder explained that the draft annual report and accounts were presented to the August Committee meeting, and that Audit Wales were now at the final stages of their audit. Following Audit Wales' feedback there had been some changes to the notes within the accounts, and a change to the presentation of the net asset statement where cash is now shown separately, but these changes did not affect the bottom line figures. This was a pleasing audit outcome. The only significant issue to report is in relation to the process the Fund uses to determine outstanding private markets commitments, which has been carried out in the same way for many years. Officers were happy to agree a recommendation to review this process in readiness for the 2023/24 closure of accounts but highlighting this would be a labour-intensive process given the number of private markets mandates involved.

Mr Whitely of Audit Wales thanked Mrs Fielder and the team for their work on the Annual Report and Accounts and their co-operation in dealing constructively with audit queries. He took the Committee through the ISA-260 report, highlighting some key areas:

- Paragraph 6 referred to some work still ongoing. Audit Wales' work in these areas was now complete and there were no further issues arising from those areas.
- Paragraphs 8 and 9 referred to the two threats towards independence and objectivity identified within the audit plan and the mitigating controls to address these. A further threat to independence arose during the audit, after the detailed audit plan was issued. This related to a team member joining the audit team who was in receipt of a pension from Clwyd Pension Fund, and measures were put in place to ensure this member did not access any personal identifiable data, payroll information or information regarding member contribution rates. These controls operated as intended.
- Mr Whitely had replaced Michelle Phoenix as audit manager this year.
- Audit Wales intended to issue an unqualified audit opinion tomorrow, and the auditor general would sign the audit certificate subject to receipt of the letter of representation.
- The initial evaluation of unquoted investment values as being a significant risk was revisited during the audit and was lowered.
- There were no uncorrected misstatements in the accounts, and a small number of corrected misstatements in the accounts which were detailed within the report. Mr Whitely noted that this was a significant achievement.
- There was one significant issue arising from the audit around the process the Fund uses to determine future capital commitments under private equity mandates. Some small errors were identified which when projected to the entire portfolio were estimated to be overstated by £18.5 million. Subsequent to the report being issued, this had been reviewed and the final estimation of this overstatement was slightly reduced to £17.3 million. He highlighted that the Finance Team has plans in place to improve this process going forward.
- Appendix 3 details the corrections made including the £98 million which was a classification issue within the net asset statement whereby cash held in the Fund's bank account was analysed separately this year. The changes were made and the comparative figure was also amended.
- Appendix 4 contains recommendations for improving processes around identifying and monitoring future commitments.

Mr Ferguson thanked both Audit Wales and the pensions finance team on the completion of the audit in line with statutory deadlines, noting there were delays in the auditing of some local authorities' accounts. He was pleased that the auditors were able to confirm that the accounts provide a true and fair view unqualified opinion of the Fund's financial transactions for the year. He noted that there are always likely to be some identified misstatements in such a complex set of accounts, so it was particularly pleasing that all misstatements were adjusted within the accounts the Committee were being asked to approve. The audit recommendation has been accepted by the Fund and was already being actioned in advance of next year's accounts. He therefore recommended that the Committee approves the statement of accounts.

Cllr Dave Hughes congratulated the team on an excellent report.

RESOLVED:

- a) The Committee approved the Fund's Annual Report for 2022/23 including the Statement of Accounts.
- b) The Committee considered the Audit of Accounts Report.
- c) The Committee approved the final Letter of Representation.

30. CLIMATE CHANGE ANALYSIS UPDATE

The Task-force for Climate-related Financial Disclosures (TCFD) report is not yet mandatory for LGPS Funds, however this is viewed as best practice to demonstrate clearly and publicly the monitoring of risks and opportunities from climate change, evidencing progress made and identifying future areas of interest. Alongside the TCFD report, an infographic had been produced as a single page supplement to aid public understanding of the report.

Mr Turner took the Committee through the main areas of the TCFD report, highlighting that a supplementary analysis was carried out showcasing the Fund's progress since the date of the report (31 March 2023), in particular, the impact on decarbonisation of the Fund's transition of assets from the WPP Global Opportunities Equity Fund to the WPP Sustainable Active Equities Fund in June. Other significant work during the year was also highlighted within the TCFD report including work towards an exclusions policy, work in impact private markets investments, and a commitment to implement investment ideas in the TAA portfolio to dedicated ESG (Environmental, Social and Governance) and sustainable funds, where appropriate and available.

In the year ending March 2023 there was an increase in the carbon footprint of the Fund's equity portfolio. As expected, the transition of assets to the WPP Global Opportunities Equity Fund and WPP Emerging Markets Equity Fund contributed to the increased carbon footprint. Additionally, the carbon footprint of the overall market increased due to the strong performance of the energy sector compared to other sectors, as a result of the invasion of Ukraine by Russia.

However, the switch to the WPP Sustainable Active Equity Fund in June 2023 has had a positive impact, bringing the Fund broadly in line with the target trajectory, as intended. Analysis shows that a large portion of the Fund's carbon footprint now arises from emerging markets, making this the next key area for the Fund to target and this will be considered as part of the proposed strategy review.

Mr Hibbert thanked officers and advisers for the interesting report and asked whether it would be possible for future analysis to include comparison to the overall LGPS, or to a similar sized LGPS fund. Mr Turner confirmed that it would be possible to provide a comparative assessment to help consider the Fund's progress relative to other Funds, but emphasised the importance of the Fund focusing on meeting its own targets which currently measure the listed equity portfolio where data is most accurate.

Cllr Shallcross asked whether consideration is given to the potential effects of conflicts arising other than the conflict between Russia and Ukraine, for example whether the Israel/Palestine conflict was expected to have a similar impact on markets. Mr Turner confirmed that he was not currently aware of any climate-related consequences of the

conflict in the middle east, or of any impact on the Fund's portfolio. He noted that there is risk inherent in the possibility of the conflict escalating, which could for example lead to spikes in the oil price, and the impact in such a case would be monitored. He explained that if events led to a material decrease in global equity performance, the Fund is well diversified and the equity protection strategy within the risk management framework was designed to cushion the potential impact of such a scenario.

Cllr Swash requested further detail around the rapid scenario shown on the graph on page 270, which appeared to provide the best result in the long term. Mr Turner explained that this graph shows the potential impact on funding position of different transition scenarios over different time frames (5, 20, and 40 years). The key point from the graphic was how damaging the 'failed transition' scenario would be (55% below the baseline), and the importance of taking positive action to mitigate against this, such as the Fund's switch to the WPP Sustainable Active Equities fund.

RESOLVED:

The Committee considered, discussed and noted the draft Taskforce for Climate-Related Financial Disclosures (TCFD) report and the analysis from the Analytics for Climate Transition (ACT).

31. GOVERNANCE UPDATE AND CONSULTATIONS

Mr Latham took the Committee through this report, highlighting some key areas that had developed since the report was written:

- Richard Weigh, the section 151 officer at Wrexham County Borough Council had been appointed to the vacant employer representative role on the Pension Board.
- There are internal training sessions now scheduled to take place after each of the next two Committee meetings in February and March.
- The LGA Annual Governance Conference takes place in York on 18-19 January. Two members of the Committee will be attending.
- Details of the Carden Park Investment Seminar will be circulated for Committee and Board members.
- The Fund's Annual Employer Meeting takes place at County Hall on 7 December. Employers and Scheme Member Representatives as well as Committee and Board members are invited to attend, engage and ask questions around the video presentations which have been circulated.

Ms Murray took the Committee through the progress on developing the Fund's Equality, Diversity and Inclusion (EDI) Policy and the draft definition of EDI which takes into account both the TPR guidance and FCC policies. The view of TPR is that an appropriate approach to EDI leads to better decision-making, and better outcomes for members and employers.

Cllr Rutherford commented that he welcomes the Fund developing its own EDI policy. He felt that it would be helpful for Committee members to receive an assessment of how decisions could impact EDI, similar to assessing the RI impact of financial decisions.

Mr Latham explained that the Government had now given its response for the DLUHC consultation on next steps for LGPS investments, and handed over to Mr Turner to talk the Committee through the outcomes. Mr Turner explained that there were no near-term actions for the Fund to take, as the Fund is already on track towards the key ambitions of the Government's statement. These ambitions are to be taken forward on a comply-or-explain basis. There is a clear ambition to accelerate the pooling of assets by March 2025, with a longer term ambition for fewer, larger pools with a minimum pool size of £50bn. The Fund's level of assets pooled has been increasing, and this will continue to be a key goal for the Fund, however there are currently barriers to transitioning some areas of the portfolio. Currently WPP (Wales Pension Partnership) does not have a suitable equivalent to the Fund's Cash and Risk Management Framework, or the Tactical Asset Allocation portfolio, and these assets will not be transitioned until an appropriate pooled solution is developed. There are also ambitions for Committee training and reporting requirements, for which the Fund's Governance Advisers will be able to provide support.

Ms Murray added that the Government has said pooling guidance will be revised to set out a preferred model whereby manager selection and strategy implementation may be delegated to pools. In relation to feedback that pools should not provide strategic investment advice to funds due to a conflict of interest, the government responded that it does not consider a conflict exists for pool companies owned by partner funds, although separate advice could be needed for pools that use a third-party operator. The proposal to introduce objectives for investment consultants will also be going ahead, though this is already in place for CPF.

Mr Latham noted regarding the size of the Wales Pool compared with the Government's ambition for pool size as a longer term objective. Although there have been some verbal suggestions that cross-border pooling is not intended, there has been no written mention of this.

Ms Murray added that a further final development since the report was written was publication of TPR's research carried out in January to March on public service pension schemes in relation to governance and administration. This may be considered at the next pension board. The results showed that the majority of schemes had not considered EDI, including a third of LGPS Funds. She noted that the key risk for LGPS funds was recruitment and retention, which the Fund has been taking steps to address.

Mrs McWilliam highlighted that Committee and Board members were invited to attend the Fund's annual meeting for employers and scheme member representatives next week.

RESOLVED:

The Committee considered and commented on the update.

32. PENSION ADMINISTRATION/COMMUNICATIONS UPDATE

Mrs K Williams took the Committee through this report, and highlighted the following developments:

- The staging timeline for the National Pensions Dashboard has now been published, and the Fund will need to complete the onboarding process by September 2025. The Fund will continue data cleansing, confirm its platform provider and plan further timelines which will be reported on at future Committees.
- Employers had shared positive feedback on the videos the Fund had circulated to provide an update ahead of the Annual Employer Meeting.
- The application window has closed for vacant roles in the administration team and interviews commence next week. The number of responses received seemed to have been improved by the positions becoming permanent roles.
- The Communications and Marketing officer has left the role and feedback from the exit interview would be used to review the job description going forward.
- Mrs K Williams attended the Pension Managers Conference in Torquay last week, and she was pleased to note that many of the challenges discussed at the conference were areas that the Fund is already proactively addressing.
- The Fund has hosted two employer engagement sessions, and the next is scheduled to take place in February. These meetings have highlighted interest in holding an additional meeting for small community and town councils, which is now also being planned.

Cllr Rutherford requested clarification of the statement on page 386 that “If recruitment to a Pension Officer grade is unsuccessful, it is proposed that any remaining vacant Pension Officer positions are recruited at the lower Pension Assistant grade”. Mrs K Williams explained that historically the Fund has struggled to recruit to the Pension Officer grade while pension assistant roles typically received more applications. Where applicants to the pension assistant grade are capable of the pension officer grade, these applicants may be hired on the basis that training will progress them to the pension officer grade. However, during this recruitment exercise, a number of strong applications have been received for the officer grade which is now a permanent role. Cllr Rutherford requested confirmation that this would not result in Pension Assistants carrying out Pension Officer work. Mrs K Williams confirmed that while staff are recruited with the intention to progress towards an Officer role, the Fund does not ask staff to work beyond their pay grade. Mrs Carney added that these arrangements replace the Council’s career grade in supporting staff to advance to further roles within FCC.

RESOLVED:

The Committee considered and commented on the update.

33. INVESTMENT AND POOLING UPDATE

Mr I Hughes talked the Committee through the main points of this report including an update on progress against the business plan, WPP matters, and local and impact investments. He shared a video which the Fund had produced in partnership with the Pensions Management Institute, showcasing the Fund’s responsible investments in clean energy through Capital Dynamics, and small/medium local enterprises through Development Bank of Wales. Mr Hibbert commented that he enjoyed the video which he found to be very informative.

Since the last Committee meeting, Fund Officers had met with officers from the other Welsh authorities on three occasions regarding responsible investment, including the WPP stewardship code submission, climate and ESG risk reporting, and voting engagement reporting by Robeco. Hymans have now produced an RI report on behalf of WPP which was attached as an appendix to the report. The Committee and Board will continue to receive Private JGC papers on engagement and securities lending as agreed at the last Committee meeting.

Mr A Munro took the Committee through the 2023 AVC Review report which discusses the Fund's two AVC providers: Utmost (unit-linked investments) and Prudential (both unit-linked and with-profits investments). There were no concerns with either provider. As a result of the review, Officers were advised to send communications reminding members of their AVCs, as well as periodic reminders of the key characteristics and risks of with-profits funds. The next AVC review will take place by November 2024.

Mrs McWilliam reminded Committee and Board members of the value of AVCs as an additional opportunity for retirement savings, and the importance of reviewing the AVC provisions regularly to ensure that the funds offered and the communications around them remain suitable to protect members' money.

RESOLVED:

The Committee considered, noted, and commented on the update.

34. FUNDING AND INVESTMENT PERFORMANCE

Mr Turner took the Committee through the market conditions and performance, highlighting the reducing rate of increase of inflation and its role in lowering government bond yields, which would be beneficial for CPF by providing a more stable environment for other asset classes including equity markets. Equity markets were performing well and were dominated by the US and a small number of stocks acting as key market drivers.

Mr Middleman explained the Funding update and highlighted that while the funding level was on target at 105% at end of September, there had been a slight decrease since the time of reporting, due to market performance and the effect of inflation on liabilities. Surplus is currently a key discussion point within the LGPS, and a national surplus working group has been established to discuss how surplus should be used, including the potential review of contributions prior to the next valuation given the pressure on council budgets. The Committee will hear more on this over the coming months as we move into the initial stages of the 2025 valuation. Once the Scheme Advisory Board statement was issued Mr Middleman would provide an update. However, he did not feel it would affect the Fund as central to the funding strategy is sustainability of contributions and appropriate use of surplus monies by employers.

The Flightpath Strategy and Cash and Risk Management Framework was working well, though currency is under watch due to its performance. The hedging basis is being updated to better reflect market conditions, but this does not impact overall risk.

Ms Murray commented that SAB's surplus working group had raised concerns around the potential conflict of interest in administering authorities requesting reduced employer contributions. Mr Middleman agreed with this concern and noted the importance of the Committee being made aware of these issues.

Cllr Rutherford asked whether pension funds providing support for councils' budgets could create a deficit that members would ultimately have to pay for, similarly to the 1990s pension holidays. Mr Middleman did not foresee this happening, but noted it would likely be a factor for discussion as surplus debates progress nationally, alongside contribution sustainability and other factors. He highlighted that the funding strategy is ultimately approved by the Committee based on the Actuary's advice so there will be appropriate scrutiny around this issue.

Mr Hibbert noted that many councils were facing issues for having frozen council tax over the years, as the cumulative effect of these measures can be more damaging in the future than beneficial at the time. Similarly, there is a need for the Fund to ensure that actions taken do not place a greater risk in the future for a relatively small benefit now. Mr Middleman agreed that this would also be a key part of the debate and fed into the previous discussions on contribution sustainability and therefore budget impact in the short and longer term.

RESOLVED:

The Committee noted the report and the various actions taken in relation to the funding and risk management framework.

35. FUTURE MEETINGS

The Chair asked the Committee to note the following future Committee meeting dates:

- Wednesday 28 February 2024
- Wednesday 20 March 2024
- Wednesday 19 June 2024

RESOLVED:

The Committee noted the upcoming Committee dates.

The Chairman thanked everyone for their attendance and participation. The next formal Committee meeting is on 28 February 2023. The meeting finished at 11:27am.

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Chairman