

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 15 th June 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, albeit comments are clearly welcome.

This report provides updates on the following items:

- Triennial Actuarial Valuation Process (1.03)
- The Business Plan 2022/23 – all projects are currently on track
- Risk register - there have been no changes to the current risks.
- 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.
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REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Appendix 1 provides the Funding and Investment appendix from the Fund's business plan for 2022/23 to 2024/25 setting out the key priorities for the Fund from funding and investment perspectives. This is provided in full for the benefit of the new members of the Committee as it is a key document driving the work of the Fund and the Committee.</p> <p>Usually, the three main update reports at each Committee include the latest progress against the business plan within a summary dashboard with commentary in the update report. Given we are only 2 months into 2022/23, full updates are not being included for this meeting. Instead any key points are being highlighted in the reports and full updates will be provided at the next meeting.</p> <p>The key points for noting relating to funding and investments this quarter are:</p> <ul style="list-style-type: none">○ F1 (Funding Strategy Statement Review and Triennial Actuarial Valuation) – the Actuarial Valuation process for 31st March 2022 is underway and Members will be updated throughout the year. 1.03 provides more details.○ F4 (UK Stewardship Code) – The Fund is working with its consultants to develop the submission which will be brought to the August Committee for approval to submit in October. The WPP was successful in their submission although there were some recommendations of areas for improvement which the Fund can also consider.
1.02	<p>Current Development and News</p> <p><i>Foresight Regional Investment Fund III</i></p> <p>In 2021, the Fund agreed a commitment of £12m alongside other LGPS investors to invest in local areas including North East Wales. It was publically announced in June that Foresight have invested in Rooms & Views, a manufacturer of UPVC windows headquartered in Buckley, Flintshire. Whilst the previous Foresight Fund did invest in Wrexham, this is the first investment in the Flintshire Council area.</p>
1.03	<p><i>2022 Actuarial Valuation</i></p> <p>The 2022 actuarial valuation will take place this year with an effective date of 31 March 2022. The valuation project can generally be split into three categories:</p> <p>Initial planning and strategy – this includes high level indications of the results that might emerge, and the review of and proposed updates to the</p>

	<p>Funding Strategy Statement (FSS).</p> <p>Data provision and actuarial calculations - including collection of the renewal data from the employers, quality testing and the actuarial calculations.</p> <p>Finalise results and consultation with employers - includes the FSS consultation with employers and its approval by the Committee. The employers will consider their results and liaise with the Fund (including the actuary as required) to arrive at their final results, within the agreed parameters documented in the FSS.</p> <p>Formally certify contribution requirements – including finalisation of the actuarial valuation report.</p>
1.04	<p>As part of the initial stage, the Actuary has performed calculations to determine high-level valuation indications and potential contribution outcomes for the Fund and individual Councils at 31 March 2022. The results incorporated initial indications of the life expectancy analysis outcomes (based on data provided by the Fund) - this is the most financially significant demographic assumption. Meetings then took place to discuss the results of the calculations with Fund officers on 18th May and with the individual Councils that participate in the Fund as part of the Councils' Finance Directors' Steering Group on 23rd May.</p>
1.05	<p>The next stages of the actuarial valuation process will see:</p> <p>Final membership data provided to the Actuary during early July.</p> <p>Finalisation of the demographic analysis in July so that the outcomes can be incorporated into the calculations. The formal calculations will commence at that point with the larger employers' results expected during September 2022.</p> <p>The Actuary and Fund officers will commence discussions regarding the updates required to the FSS in August. Once updated, the consultation with employers on the FSS is expected to commence during October/November 2022. As part of the consultation, the employer results and contribution outcomes will be communicated. These will be discussed further at the AJCM in December, including an opportunity for all employers to discuss their draft results with the Actuary.</p> <p>Once the FSS consultation period and any discussions with employers have been concluded, , the valuation report can be drafted.</p> <p>The Committee will be updated further on the progress of the valuation project at future committee meetings during 2022/23.</p>

1.06	<p><i>Investment Strategy Review Update</i></p> <p>In conjunction with the triennial actuarial valuation the Committee will undertake its triennial review of the Fund’s Investment Strategy. Over the next 9 months this will involve undertaking a review of the Fund’s asset allocation by conducting asset modelling in order to determine an appropriate risk and return budget. These are intrinsically interlinked with the actuarial valuation given the interdependencies of the investment and funding strategies. Initial work on the investment strategy will begin in earnest once the preliminary actuarial valuations results are known. Recently announced local investment ambitions of up to 5% from the DLUHC will be considered once greater clarity on the announcement has been confirmed. The review will also incorporate strategic climate change scenario analysis modelling.</p>									
1.07	<p>Policy and Strategy Implementation and Monitoring</p> <p>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 11.</p> <p>The Advisory Panel also receive reports from the following Clwyd Pension Fund officer/adviser working groups:</p> <ul style="list-style-type: none"> • Tactical Asset Allocation Group (TAAG) • Cash and Risk Management Group (CRMG) • Private Equity and Real Assets Group (PERAG) <p>Any decisions arising from these meetings which have been agreed using delegated responsibilities are detailed in Appendix 2.</p>									
1.08	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise:</p> <ul style="list-style-type: none"> • 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 1.10. <table border="1" data-bbox="304 1910 1366 2094"> <thead> <tr> <th>Asset Class</th> <th>Fund</th> <th>Commitment</th> </tr> </thead> <tbody> <tr> <td>Private Debt</td> <td>Neuberger Berman Private Debt Fund IV</td> <td>\$18m (£13m)</td> </tr> <tr> <td></td> <td>Bridgepoint Direct Lending Fund III</td> <td>€15m (£13m)</td> </tr> </tbody> </table>	Asset Class	Fund	Commitment	Private Debt	Neuberger Berman Private Debt Fund IV	\$18m (£13m)		Bridgepoint Direct Lending Fund III	€15m (£13m)
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1.09	<p>Private Market Allocations</p> <p>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.</p>
1.10	<p>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. As can be seen from the table above, the Fund and Mercer have been busy making new allocations. A brief summary of the investments is shown below. All are highly rated managers by Mercer including ESG credentials.</p> <p>Neuberger Berman Private Debt Fund IV A private debt manager raising \$3bn, focussed on first-lien (i.e. first lien debt holders are paid back before all other debt holders, including other senior debt holders), senior secured loans to US private equity sponsor owned companies across a broad cross section of the middle market.</p> <p>Bridgepoint Direct Lending Fund III A private debt manager raising €3bn, focussed on a diversified direct lending strategy in Europe and targeting resilient sectors such as healthcare and business services.</p>

2.00	RESOURCE IMPLICATIONS
2.01	Due to three post vacancies in the Fund's Finance Team, 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.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report, albeit consultation on updates to the Funding Strategy, and perhaps the Investment Strategy, will be carried out during 2022/23.

4.00	RISK MANAGEMENT
4.01	Appendix 3 provides the dashboard and risk register highlighting the current risks relating to investments and funding matters.
4.02	<p>There have been no additional risks added to the register since the last Committee and all of the risks have remained the same as reported to the December 2021 Committee. Of these, most remain on target and all of the remainder, apart from one, are one step away from the target impact or likelihood, which is mainly due to the uncertainty around markets.</p> <p>The risk which is furthest from target is risk four, which is that the value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. The target for this risk is longer term and this and other risks will be reassessed as part of the Actuarial Valuation.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – 2022/23 Business plan Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None.</p> <p>Contact Officer: Debbie Fielder, Deputy Head, Clwyd Pension Fund Telephone: 01352 702259 E-mail: Debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(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</p> <p>(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.</p> <p>(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</p> <p>(d) TAAG – Tactical Asset Allocation Group – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and</p>

consultants from JLT Employee Benefits, 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.

A full glossary of Investments terms can be accessed via the following link.

<https://www.schroders.com/en/uk/adviser/tools/glossary/>