

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 31 st August 2022
Report Subject	Stewardship Code Submission
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to support the Clwyd Pension Fund's application to the Financial Reporting Council (FRC) to apply for signatory status of the 2020 Stewardship Code (the "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. The Fund committed to reviewing the requirements of the new Code, with the aim of becoming a signatory.

The proposed submission demonstrates the work that has been conducted in respect of stewardship both in the past, and the commitments to continued progression in the future in areas such as private markets and equities.

Becoming signatories of the Code aligns with the Fund's key objective of being an active responsible investor and illustrates the Fund's beliefs and objectives surrounding environmental, social and governance (ESG) issues.

The FRC deadline for submission is 31 October 2022. This submission is the first draft and continues to be worked on by officers and advisers. Although comprehensive, any thought and views from the Committee are welcome. Updates to the draft submission will continue to be made before the FRC deadline.

RECOMMENDATIONS

1	That the Committee consider and comment on the contents of the draft submission.
2	That the Committee delegates responsibility for approving the final submission to the Head of Clwyd Pension Fund.

REPORT DETAILS

1.00	Clwyd Pension Fund's draft Stewardship Code submission
1.01	<p>Background</p> <p>The purpose of this report is to support the Clwyd Pension Fund's application to the Financial Reporting Council (FRC) to apply for signatory status of the UK Stewardship Code 2020 (the "Code"). The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. 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.</p>
1.02	<p>The Code applies to:</p> <ul style="list-style-type: none">• Asset owners such as pension schemes, insurers, foundations, endowments, local government pension pools and sovereign wealth funds.• Asset managers who manage assets on behalf of UK clients or invest in UK assets.• Service providers such as investment consultants, proxy advisors, data and research providers that support asset owners and asset managers to exercise their stewardship responsibilities. <p>To become a signatory of the Code, you need to be able to demonstrate to FRC that you can meet these stewardship standards. Signatories are required to resubmit on an annual basis to continue to demonstrate compliance.</p>
1.03	<p>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. The Fund committed to reviewing the requirements of the new Code, with the aim of becoming a signatory. The draft submission, which has been prepared for this purpose, is included in the Appendix. Being a signatory of the Code helps demonstrate to the Fund's stakeholder and other interested parties that the Fund is committed to being a responsible investor.</p>
1.04	<p>As previously reported, Wales Pension Partnership (WPP) made a successful submission earlier in 2022 and are now signatories for the Code. The FRC helpfully identified a number of improvement areas as part of feedback to WPP's submission, which are being considered in advance of the 2023 review.</p>
1.05	<p>Stewardship is often simply thought of as voting on listed equities. However this is much wider and considers engagement and approach relating to all asset classes.</p> <p>Becoming signatories of the Code aligns with the Fund's key objective of being an active responsible investor and illustrates the Fund's beliefs and objectives surrounding environmental, social and governance (ESG) issues.</p>

1.06	<p>The draft submission demonstrates the work that has been conducted in respect of stewardship both in the past, and the commitments to continued progression in the future in areas such as private markets and equities. Our beliefs and priorities were documented and consulted on with employers as part of reviews of the Fund’s Responsible Investment Policy in 2019 and 2021 (which is within the Fund’s Investment Strategy Statement).</p>
1.07	<p>The Code has twelve “comply and explain” principles, under four main sections. The draft submission demonstrates the Fund’s approach in relation to each of these principles. The twelve principles are:</p> <p><u>Purpose and governance</u></p> <ol style="list-style-type: none"> 1. Purpose, strategy and culture 2. Governance, resources and incentives 3. Conflicts of interest 4. Promoting well-functioning markets 5. Review and assurance <p><u>Investment approach</u></p> <ol style="list-style-type: none"> 6. Client and beneficiary needs 7. Stewardship, investment and ESG integration 8. Monitoring managers and service providers <p><u>Engagement</u></p> <ol style="list-style-type: none"> 9. Engagement 10. Collaboration 11. Escalation <p><u>Exercising rights and responsibilities</u></p> <ol style="list-style-type: none"> 12. Exercising rights and responsibilities
1.08	<p>The deadline for submission is 31 October 2022. This report is the first draft and although comprehensive, any thought and views from the Committee are welcome. Updates to the report can be made before submission.</p>
1.09	<p>Explanation of Main Sections</p> <p><i>Purpose and Governance</i></p> <p>This section outlines the Fund’s culture, values and investment beliefs that enable good stewardship to provide sustainable long-term benefits for all stakeholders. Also discussed in this section is how governance and assurance structures, and processes, enable the Fund to manage risks.</p>
1.10	<p><i>Investment Approach</i></p> <p>This section discusses how the responsible investment beliefs are incorporated into the asset allocation to ensure that the Fund invests in a responsible and sustainable way, as well as ensuring it can pay benefits to its members as and when they fall due.</p>

1.11	<p><i>Engagement</i></p> <p>This area demonstrates all aspects of engagement, including direct engagement by the officers of the Fund and also engagement conducted on behalf of the funds participating in WPP through Robeco. Several examples are provided on engagement including an example of enhanced engagement. This section also covers how the Fund and its officers engage within the wider market, as members/ affiliates of several boards and initiatives including but not limited to LAPFF (Local Authority Pension Fund Forum), Pensions and Lifetime Savings Association (PLSA) Local Authority Committee and Pensions for Purpose. In addition, it discusses how the Fund has actively engaged with other Funds and asset managers to support development of new sub-funds within WPP, creating new sustainable investment opportunities.</p>
1.12	<p><i>Exercising rights and responsibilities</i></p> <p>This area demonstrates how the Fund has delegated voting rights to the WPP, who in turn, have appointed Robeco as its voting and engagement provider. This section explains voting policy and voting areas, as well as providing several examples of engagement which Robeco have taken on behalf of the participating funds in WPP.</p>
1.13	<p>Key points to note</p> <p>Whilst this is the Funds first submission to the new Code, the Fund has followed the spirit of the Code for a number of years and this submission is a just way to articulate what the Fund has been doing to FRC. The following paragraphs highlight some of the key areas that have been included in the draft submission.</p>
1.14	<p>As a member of WPP, Clwyd Pension Fund has delegated all voting rights to WPP. Voting rights give shareholders the opportunity and responsibility to engage and participate in the stewardship of companies. Clwyd Pension Fund expects WPP, Robeco and underlying fund managers to comply with the Stewardship Code.</p>
1.15	<p>The submission outlines the main changes that have made to the Fund's Responsible Investment Policy in recent years, including:</p> <ul style="list-style-type: none"> • In 2022 the Fund made a commitment to achieve a net zero carbon dioxide emission's target by 2045, with an interim target of carbon reduction of 50% by 2030. • The Fund has targeted to have at least 30% of its asset allocation allocated to sustainable investments by 2030. • Within the Fund's allocation to global equity there is an underlying 5% strategic allocation commitment to sustainable equity. This allocation is currently invested in the BlackRock World ESG Equity Fund.
1.16	<p>Historically, the Fund has always been committed to making responsible decisions and acting in a responsible manner. In 2012, the Fund engaged</p>

	with managers on matters pertaining to ESG issues by sending out surveys to all the private market managers on such matters. In 2017, the Fund had a sustainability policy in place which was well before any formal requirement for such. The Fund at the time supported investments with strong sustainability / impact focus and increased its allocation to infrastructure from 4% to 8%, with a clean energy emphasis. The Fund also wrote to all private equity and real asset managers to determine how aligned the current investments were to the United Nations' Sustainable Development Goals (UNSDG).
1.17	The Fund now has a strategic target to allocate 4% of the total portfolio to Local/Impact investments within private markets. Outside of this specific Local/Impact allocation, the Fund also endeavour to make sustainably-focused allocations within their other private markets asset classes (private equity, private debt, infrastructure and real estate) where possible, subject to the availability of investable opportunities in the market.
1.18	The Fund works in collaboration with the WPP on all pooling matters and are therefore closely involved in decision making in areas such as creation of new sub-funds, voting and engagement and monitoring of existing pooled managers. A recent example of this was in the creation of the WPP Sustainable Active Equity Fund, which is due to be launched later in the year. The Fund collaborated with other funds within the pool, as well as WPP and Russell in designing a detailed specification for the Fund.
1.19	The Fund is an Affiliate member of Pensions for Purpose. "Pensions for Purpose" exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment". The Fund is also a member of the Impact Investing Adopters Forum, which is run by Pensions for Purpose in partnership with the Impact Investing Institute to advance their principles. As an adopter the Fund has committed to the Impact Investing Institute's Impact Investing Principles and advancing the impact investing agenda.
1.20	The deadline for submission is 31 October 2022. The current draft is work in progress by officers and advisers. Although comprehensive, any thought and views from the Committee are welcome. Updates to the report will be made before submission and the Committee is asked to approve that the Head of Clwyd Pension Fund can approve the final version for submission.

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	<p>This report addresses some risks identified in the Fund’s Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Funding and Investment risks: F1, F4, F8, F9, I1 and I2

5.00	APPENDICES
5.01	Appendix – Draft Clwyd Pension Fund submission for Stewardship Code

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None.</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@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) 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.</p> <p>(e) Wales Pension Partnership (WPP) – a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of the eight national Local Government Pension pools. WPP was established in 2017.</p> <p>(f) TAAG – Tactical Asset Allocation Group – a group consisting of Clwyd Pension Fund officers and consultants from Mercer, the Fund</p>

Consultant, which considers short-term investment opportunities.

- (g) **Private Market Investments** – Commitments to private equity / debt, property, infrastructure, timber, agriculture and other impact and local opportunities.
- (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **ISS – Investment Strategy Statement** – the statutory document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (j) **FSS – Funding Strategy Statement** – the statutory document that outlines approach to funding and how we will manage employers contributions to the Fund
- (k) **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 Clwyd Pension Fund officers , Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- (l) **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.
- (m) **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.
- (n) **Department for Levelling Up, Housing & Communities (DLUHC)** – the Government Department responsible for the LGPS including making LGPS legislation and policy.
- (o) **Financial Reporting Council (FRC)** – regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.
- (p) **Local Authority Pension Fund Forum (LAPFF)** – is both an engagement partner and forum for member funds to share insights and best practice and to identify opportunities, promoting specific investment interests of local authority pension funds as asset owners.
- (q) **Stewardship** – 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.

- (r) **UK Stewardship Code 2020** – set of high standards for those investing money on behalf of UK savers and pensioners, and those that support them.
- (s) **Chartered Institute of Public Finance and Accountancy (CIPFA)** – UK based accountancy membership and standard setting body.
- (t) **Society of Local Authority Chief Executives (SOLACE)** – a leading members’ network for local authority government and public sector professionals through the UK.
- (u) **Markets in financial instruments directive II (MiFID II)** – a European Union (EU) regulatory framework designed to regulate financial markets and institutions and improve protections for investors. It aims to standardise practises across the EU.
- (v) **Pensions and Lifetime Savings Association (PLSA)** – a trade association for those involved in designing, operating, advising and investing in all aspects of workplace pensions.
- (w) **UN Principles for Responsible Investment (PRI)** – international organisation that works to promote the incorporation of ESG factors into all decision-making processes, seeking to build a more sustainable financial system.
- (x) **Pensions for Purpose** – exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment.

A full glossary of Investments terms can be accessed via the following link.
<https://www.schroders.com/en/uk/adviser/tools/glossary/>