

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 15 February 2023
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.

There was a WPP Joint Governance Committee (JGC) on 5 December 2022 and the draft minutes are appended for information which included the recommendation of the appointment for a Private Market Allocator for the Wales Pension Partnership.

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
- Procurement sub-group.

RECOMMENDATIONS

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| 1. | That the Committee note and discuss the update and agree any comments or questions for WPP. |
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REPORT DETAILS

1.00	Pooling Investment in Wales
1.01	<p>Joint Governance Committee (JGC)</p> <p>There was a WPP JGC on 5 December 2022. The draft minutes of that meeting are attached (Appendix 1).</p> <p>In summary the JGC considered or approved the following:</p> <ul style="list-style-type: none">• An Update from the Host Authority.• A risk register review which this quarter considered the training & resources risks, communication risks and investment risks.• New Complaints Policy which provides guidance for the eight Constituent Authorities should they have a complaint about WPP.• The annual review of the WPP Responsible Investment Policy - following this review, the Policy has been updated to include a section on Human Rights, and within the section on Stewardship, extended to include voting on the pooled passive funds.• An update from the Operator including the assets within the pool which are £14.8bn (including passive investments) as at September 2022. The JGC also received an update on the current organisation issues relating to Link Fund Solutions Ltd.• An update on investment performance as at 30 September 2022. 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 Equities and Emerging Markets were ahead of benchmark at that date, but the Multi Asset Credit Fund remained behind their relevant benchmark during the quarter. <p>Further information on the above is available in the full public agenda which is available here: Agenda for Wales Pension Partnership Joint Governance Committee on Monday, 5 December, 2022, 2.00 pm</p> <p>There were a further four items for which the public were excluded:</p> <ul style="list-style-type: none">• The appointment of the Private Market Allocator for the WPP was approved.• The Stock Lending Report was noted.• The quarterly Engagement report was received from Robeco. <p>Responsible Investment and Climate Risk reports were received for the following sub funds:</p> <ul style="list-style-type: none">• Absolute Return Bonds (ARB)• Multi Asset Credit (MAC)

	<ul style="list-style-type: none"> • UK Opportunities • Emerging Market Equity.
1.02	<p>Officer Working Group & Sub-Groups</p> <p>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 the Fund’s Responsible Investment including the Climate Risk objectives. 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. The most recent sub–group to be established is for the procurement of an Operator when the current contract ends in December 2024.</p> <p>An update was provided by WPP’s Oversight Adviser and the Host Authority to the Officer Working Group on 7 February 2023 on the work of these groups and other matters. The main items for discussion in line with the WPP Business Plan were:</p> <ul style="list-style-type: none"> • Consideration of the proposed 2023 -2026 WPP Business Plan, including the training plan for 2023/24 (which will be brought to the Clwyd Pension Fund Committee in March). • An update on the plans for the launch of the Sustainable Active equity sub fund which has been delayed until April 2023. • An update on the progress of the Private Market Allocators, including the appointment of Schroders as Private Equity Allocator. • An update on the Operator contract procurement. • Reports from Link/Russell on investments and performance. • Review of the governance matrix and certain items on the risk register. <p>There is nothing further to report in relation to the sale of Link Fund Solutions or the ongoing FCA investigation. As soon as formal notifications are received from the Host Authority, the Committee will be updated.</p> <p>Further details will be provided in future updates when relevant matters are reported to the next JGC.</p> <p>The WPP provides training for officers, JGC and constituent authority committee and board members. There was a training session on 5 December on Responsible Investment and Climate Risk and another is planned on Progress of other LGPS Pools and Collaboration Opportunities on 27 February 2023. Clwyd Pension Fund members are encouraged to attend.</p>
1.03	<p>Private Markets Update</p> <p>Further to the appointment of Russell Investments as the Private Credit Allocator and GCM Grosvenor as Allocator for Infrastructure, the JGC on</p>

	<p>5 December approved the recommended bidder for the Private Equity Allocator from the procurement exercise completed in July 2022. The contract was awarded on 20 December 2022 with Schroders being the successful bidder. Work is underway to complete the legal requirements by February/March 2023.</p> <p>This should mean that all future commitments to those asset classes for 2023/24 can be actioned through the WPP.</p> <p>In addition, work has started on the next phase to look at options available for allocations to Property as an asset class. There is an engagement day planned for officers and a selection of current managers in Cardiff on 10 March, which the Head and Deputy Head of Clwyd Pension Fund are attending.</p>
1.04	<p>Responsible Investment Update</p> <p>The RI sub-group met in December 2022 with the next meeting due on 14 February 2023. The main areas of discussion were:</p> <ul style="list-style-type: none"> • An All Wales Climate Report. • Climate risk and ESG reports for the WPP Emerging Market Equity fund and the UK Opportunities Equity Sub Fund. • A review of the 2023 workplan and cycle of future meetings. • Stock lending. • LAPFF voting alerts. <p>Hymans Robertson as the Oversight Advisor to WPP had been asked to present a scoping document for an all-Wales climate report to the RI Sub-Group (RIWG). This was framed around WPP’s climate ‘journey’, so providing an overview of where WPP is (and where it has come from) in terms of climate risk and opportunity. The report will serve a number of broader purposes:</p> <ul style="list-style-type: none"> • Help inform discussions around a common WPP climate goal and net-zero journey planning • Provide each of the Constituent Authorities with a broad idea of their progress • A precursor to upcoming Task Force on Climate-related Financial Disclosures (TCFD) reporting. <p>Reporting will use a baseline measurement date of 31 March 2019 (shortly following the launch of the first two pooled sub-funds) and use 31 March 2022 as the first comparison date to allow progress to be demonstrated over the period of operation of the WPP. Work is progressing on data gathering for this exercise.</p>
1.05	<p>Operator Contract Procurement Update</p> <p>With regard to the process for the operator procurement, regular meetings have been taking place between the Host Authority, Hymans Robertson as the Oversight Advisor to WPP, and Burges Salmon (Legal Advisor to WPP) to review and develop the required procurement documentation. Key dates</p>

	<p>are indicated below:</p> <ul style="list-style-type: none"> • 17 January 2023, Prior Information Notice (PIN) was issued which set out the WPP purchasing intentions. • 16 February 2023, first meeting of the Procurement sub-group. • 17 February 2023, deadline for expressions of interest for a Market Engagement day. • 9 March 2023, Market Engagement day to be held in Cardiff. • May to July 2023, individual Constituent Authorities (CA) to approve evaluation and scoring criteria for final procurement documentation. <p>It is anticipated that the agreed Invitation to Tender (ITT) will be issued in Q3 2023/24 after which the final recommendation will require approval by the JGC and individual CA's March /April 2024.</p> <p>The Head and Deputy Head of Clwyd Pension Fund will be involved throughout this process and are attending the engagement day on 9 March.</p>
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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	<p>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.</p> <p>The WPP risk register is included in the JGC agenda. The focus for the quarter to September was Training & Resource risk. All of those risks were on target.</p> <p>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.</p>

	<p>WPP investment and performance risks have also been updated and reported to the Officer Working Group and the JGC. The two risks currently behind target are:</p> <ul style="list-style-type: none"> • WPP sub funds fail to achieve long term investment targets, and • WPP fail to adequately account for climate risk and other ESG factors. <p>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.</p> <p>The Head of Clwyd Pension Fund attends the WPP Risk sub group.</p>
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5.00	APPENDICES
5.01	Appendix 1 – JGC 5 December 2022 draft minutes.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<ul style="list-style-type: none"> • Earlier Committee reports on the progress of the WPP. <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) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) Inter-Authority Agreement (IAA) – the governance agreement between the eight Wales pension funds for purposes of pooling</p>

- (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.