

CLWYD PENSION FUND COMMITTEE
15 FEBRUARY 2023

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely via Zoom at 9.30am on Wednesday, 15 February 2023.

PRESENT: Councillor Ted Palmer (Chairman)

Councillors: Jason Shallcross, Antony Wren, Sam Swash

CO-OPTED MEMBERS: Councillor Andy Rutherford (Other Scheme Employer Representative), Councillor Gwyneth Ellis (Denbighshire County Council), Councillor Anthony Wedlake (Wrexham County Borough Council, absent from Item 8 onwards), and Mr Steve Hibbert (Scheme Member Representative, absent from Item 9 onwards)

ALSO PRESENT (AS OBSERVERS): Elaine Williams (PFB Scheme Member Representative), Phil Pumford (PFB Scheme Member Representative).

APOLOGIES. Councillor Dave Hughes (Flintshire County Council).

Advisory Panel comprising: Philip Latham (Head of Clwyd Pension Fund), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Adviser – Aon), Paul Middleman (Fund Actuary – Mercer), Kieran Harkin (Fund Investment Consultant – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Karen Williams (Pensions Administration Manager – Absent from Item 4 onwards), Sandy Dickson (Investment Adviser – Mercer), Hill Gaston (UK Head of Sustainable Investment – Mercer), Ieuan Hughes (Graduate Investment Trainee), Megan Fellowes (Actuarial Analyst – Mercer), and Morgan Nancarrow (Governance Administration Assistant – taking minutes).

The Chairman welcomed the new Governance Administration Assistant Miss Nancarrow who would be taking minutes, and thanked Miss Fellowes for her time minuting Committees over the years.

35. **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 declarations of interest.

36. **MINUTES 23 NOVEMBER 2022**

Before receiving the minutes, the Head of the Fund, Mr Latham, raised a matter discussed at previous meetings regarding whether future Committees should be held remotely or in hybrid form. This had been taken up with Flintshire County Council, however it was concluded that hybrid meetings were not practical at this time. Mr Latham had, prior to the meeting, distributed a short questionnaire to survey Committee members' preferences. He noted that Flintshire County Council members had previously received a longer survey on the topic from Committee Services, but asked that all Committee Members respond in order to reflect the views of the whole Committee.

In relation to the minutes, the Head of the Fund commented with reference to the FRC Stewardship Code update on Page 11, that just prior to the commencement of this meeting the Fund became aware that the Fund's Stewardship Code application had been successful.

The minutes of the meeting of the Committee held on 23 November 2022 were agreed.

RESOLVED:

The minutes of 23 November 2022 were received, approved, and will be signed by the Chairman.

37. **CLIMATE CHANGE ANALYSIS UPDATE**

The Chair noted that TCFD and climate analytics were discussed in detail at the recent Essential Training session held on 1 February, and given the report was for noting only, requested that questions/comments be limited to clarification of information within the report and areas of understanding.

Mr Gaston of Mercer summarised the key points of the Fund's proposed inaugural Taskforce on Climate-Related Financial Disclosures (TCFD) Report, and the analysis from the Analytics for Climate Transition tool. He noted that the Fund's approach to climate change was well documented in the Fund's Investment Strategy in terms of beliefs, processes and Carbon Footprint monitoring, alongside investments in climate-aware investment solutions. There has been a consultation on TCFD reporting for the LGPS but the requirements are not yet finalised. The Fund has produced its first report a year early, with the intention to refine the approach and bring it in line with LGPS regulations once they had been made.

With respect to the TCFD report, Mr Gaston highlighted:

- TCFD reporting is aimed at companies, asset managers and asset owners (including pension funds). The Fund viewed this as a best practice framework

encouraging proper disclosures, informing good decision making around climate change, and encouraging standardisation across the market allowing investors to identify, assess and manage the risks & opportunities.

- The four pillars upholding the framework are Governance, Strategy, Risk Management, and Metrics and Targets. The draft report was structured on this basis.

Mr Gaston then went on to provide a summary of these four pillars as outlined in the report.

Mr Hibbert commented that the assessment provided did not include the Fund's Tactical Asset Allocation (TAA). He noted that a previous assessment had shown that the Tactical portfolio had a higher carbon intensity per pound invested than most, if not all, other asset classes. Mr Hibbert asked why this allocation had been excluded from the present assessment. Mr Gaston clarified that the TAA had been included in the assessment within various metrics to the extent available, and these were noted within the appendices. Those results showed that a number of those holdings were more carbon intensive than the rest of the portfolio. The Fund had yet to set formal guidelines and targets around those holdings and this had been identified as a next step in terms of expanding the target-setting beyond the Listed Equities to the wider portfolio.

Mr Hibbert referred to a statement on Page 37, "The Fund has a commitment to actively exercising the ownership rights attached to its investments", and asked who was dealing with this with regards to stocks and fund managers in the TAA. Mr Gaston explained that the day-to-day engagement is delegated to the investment managers of the underlying funds making up the TAA and these managers would have responsibility to engage with the invested companies and hold them to account, as well as voting.

Mr Hibbert asked if there is any evidence that the managers were doing this, as he did not note any reports of engagement. Given the nature of those companies' high carbon intensity, he felt it would be important to receive these updates regularly. Mr Gaston noted that the Fund could source this information. This did not currently make up a formal part of the reporting to the Committee but the Fund would expect those managers to be undertaking best practice stewardship.

The Fund Investment Consultant Mr Harkin added for clarity that the Fund was essentially invested in the manager's pooled product. Because the mandate is invested in underlying pooled funds on the Mobius Life platform, investors do not have an ability to engage or vote on the Fund's behalf.

Mr Hibbert referred back to page 37 to the statement that "The Fund integrates ESG issues at all stages on the Fund's investment decision making process", noting his view that the Fund did not integrate this into the TAA. Mr Harkin clarified that the Fund's investment was with the manager's pooled product, and the

Fund's Officers and advisers would take it away to consider how ensure appropriate engagement with the underlying managers. Given this was a draft version of the report, Mrs McWilliam suggested that officers and advisers take on board Mr Hibbert's comments for consideration in the next version of the report. The Chair agreed this with Mr Hibbert who was satisfied with this action.

Further to this point, Mr Latham commented that the training plan included a planned session on the Best Ideas TAA portfolio to give all Committee members a better idea of how it worked, which may assist their understanding of this area.

Mr Gaston talked the Committee through the Analytics for Climate Transition report. This analysis was carried out as at 31 March 2022, with the TCFD report covering the 12 months to the same date. The Best Ideas TAA was included in this analysis where there was sufficient data available on the underlying funds. This document addressed monitoring the targets the Fund had set and understanding the transition capacity of the Fund within the listed equity, synthetic equity and listed portion of the Russell WPP Multi-Asset Credit portfolio for which there was data.

Mr Gaston explained that the analysis was also intended to inform an updated implementation plan to understand how the Fund can expand analysis within Listed Equities, and over time, to set formal targets across the entire portfolio including the TAA.

Mr Hibbert asked for clarification on the use of the word "meaningfully", referring to a key finding on Page 22 that "Fossil fuel exposure has fallen meaningfully across oil, gas and coal". Mr Gaston quoted figures included in the executive summary of the TCFD report on page 32, stating that total potential emissions from fossil fuel reserves (included coal, oil and gas) had decreased by 29% over the 12-month period. Over the same period, exposure to coal emissions reduced by 72%, and exposure to oil and gas emissions reduced by 14%.

Mr Hibbert asked if the absolute value of the Fund attached to the exposure had also fallen. Mr Gaston explained that the exposure to companies with some exposure to fossil fuels had increased over the period, but the measure used in this analysis considered the potential emissions from fossil fuels per billion dollars invested, so referred to the exposure to fossil fuels on a normalised basis. The pound value invested in companies which had any exposure to fossil fuels had increased in the past 12 months. Mr Hibbert noted the difficulty the Fund would have in communicating this clearly if asked. Mr Gaston explained that his view was that the emissions metric used was more meaningful than the exposure to companies with any fossil fuel reserves, as some companies will have bigger exposures than others. However, both were monitored and included within the appendices.

Mr Gaston outlined suggested key areas of focus for the Fund over the next 12 to 18 months, highlighting in particular:

- As well the ongoing focus on decarbonisation, the Fund should also continue to focus on companies that have a focus on climate solutions, such as the recent £50million committed to Clean Energy in Wales.
- The Fund should also consider which emissions pathways each company is aligned with, for example 1.5 degrees in line with the Paris agreement, or a higher warming 4 degree pathway etc.
- Engagement and stewardship – the analysis has started to look at the extent to which companies producing the highest proportion of the emissions are being engaged with or are on a low carbon pathway. There is a need to consider how this marries up with stewardship efforts through the WPP (Wales Pension Partnership) and Robeco.

Mr Hibbert asked, on the subject of engagement, whether it is clear when the Fund will take the decision to divest where engagement is not proving to be successful. Mr Gaston replied that, looking at the ISS, the Fund does leave open the potential to divest, but that this had not been used to date. The ACT analysis Mercer had undertaken on behalf of the Fund had identified the ‘grey companies’ (those companies with very high carbon intensity, showing limited transition potential at present), and had begun undertaking monitoring to identify the key stocks that were most carbon intensive with high climate change risk. A wider discussion was needed with Robeco and the WPP on how they are engaging, and if sufficient progress isn’t seen over a period of time, divestment would be a tool that should be considered. Mr Hibbert noted an announcement from British Petroleum (BP) regarding its investment in increasing extraction and refinement. He highlighted the risk that some firms wouldn’t be making changes to transition to a lower carbon approach for at least the next two years, which would be a long time to wait without the Fund having a clear path for moving to divestment.

Mr Gaston continued to outline the Fund’s key areas of focus for the near future as outlined in the report, noting that the final key topic of biodiversity and how it interacts with climate change would be critical to the Fund meeting net zero targets over time.

Cllr Wedlake noted his own concerns regarding the matters Mr Hibbert had raised regarding the statements within the report and the decisions underpinning likely outcomes over the next few years. Cllr Swash agreed with Cllr Wedlake’s comments. The Chair confirmed these areas would be brought back to Committee for further consideration.

RESOLVED:

The Committee considered, discussed, and noted the TCFD and ACT reports covering periods to the end of March 2022.

38. **INVESTMENT STRATEGY REVIEW AND STATEMENT**

Mr Harkin of Mercer presented the recommendations following the Investment Strategy Review, and the proposed Investment Strategy Statement (ISS), highlighting:

- The process of the ISS review had been delayed slightly due to the impact that the previous Chancellor's mini budget had had on the UK Government Bond market and other factors which had destabilised the UK market.
- The impact of pooling and the Fund's transition to employing capital through the WPP.
- Current themes including energy crisis, geopolitical events, inflation, and the opportunity to benefit from transitions.
- The role of the current asset classes including the Cash & Risk Management Framework which holds an important background role hedging risks for the Fund
- The Fund's expected return was in excess of the discount rate required by the Fund Actuary.

Mr Harkin explained the reasons for the minor changes to the asset allocation which included:

- Reducing the emerging markets equities component from 10% to 5%. The excess 5% would be moved to Developed Market Equities, which would ultimately be invested in the WPP Global Equity Sustainable fund.
- Reducing the Hedge Fund allocation from 7% to 5%. The excess 2% would be allocated to the Local/Impact Fund. Mr Dickson added that as well as reflecting the Fund's sustainable and impact philosophy, this 6% Local/Impact allocation would align with, and exceed, the Government anticipated plans to introduce a mandatory 5% local deployment of assets, with 'local' meaning within the UK.

Mr Hibbert commented, regarding the Levelling-Up and Impact investment, the difficulty that affordable/social housing impact will be focussed in the South-East, so there would be a lack of investment opportunities centred elsewhere in the UK.

Mr Hibbert also asked for the Tactical Allocation Portfolio Terms of Reference referred to on page 144 to be brought to Committee for review. Mr Harkin agreed and noted that they would be reviewed in line with the proposed work to incorporate a new responsible investment framework to the TAA.

Mr Hibbert referred to the proposed Investment Strategy Statement (ISS) on Page 155 and requested reference to the non-voting scheme member representative on the JGC be added. Mrs McWilliam also agreed this would be a helpful addition. Mr Hibbert also referred to Page 160 which states "Engagement is the best approach

to enabling the change...”, and again highlighted the need for clarity on when a decision on divestment would be made.

In relation to the recommendations, Cllr Swash commented that he had previously voiced his opinion that the Fund’s Net Zero target date of 2045 was too late. He highlighted that South Yorkshire Pension Authority had agreed a 2030 target. Cllr Swash referenced the proposed ISS (Page 161), highlighting key carbon emissions targets within the Listed Equity Portfolio. Cllr Swash proposed an amendment to this paragraph to add an additional aim to reduce exposure to companies who extract fossil fuels, or whose primary business is the trading of fossil fuels, by 100% by 2030.

Mrs McWilliam advised the Committee that in order to ensure proper governance, the matter of amending the ISS with a new investment target should be subject to the Committee receiving formal advice on the proposed amendment and the impact of it. She recommended Officers and advisers should investigate further the implications of the motion and the matter be considered further at a future Committee meeting with the appropriate advice on the suitability of the amendment.

Cllr Ellis noted Cllr Swash’s motion, and commented that she would value advice on the matter.

Cllr Wedlake noted that in the event that this item be deferred in order to receive advice, it would be helpful to receive advice stating the implications of the amendment. He felt that without this information he would personally have difficulty accepting the ISS considering the underlying principles of the Fund’s approach to Responsible Investment. Mr Hibbert commented his agreement with Cllr Wedlake.

Mrs McWilliam then requested Mr Harkin and Mr Latham to clarify if there was anything in the draft paper that would be impacted if the recommendation to approve the ISS was not agreed at this Committee meeting. Mr Latham highlighted that the move to the WPP Active Sustainable Equity Fund could not proceed if the asset allocation was not agreed by the Committee. Mr Harkin agreed that if the asset allocation changes were agreed, there would be no immediate impact on delaying agreement to the ISS whilst the Committee considered the proposed amendment. Mr Latham highlighted that the CPF employers had been consulted on the ISS as it currently stood. Mr Latham therefore suggested that the Committee consider approving the first recommendation relating to the asset allocation changes, and that the Committee can return to the considering the ISS amendments, including the proposed amendment by Cllr Swash at a later date. However, he noted given the full agenda for the March Committee meeting and the time Officers will need to take properly regulated investment advice on the proposed amendment, that the review of the ISS would likely need to be delayed until the June Committee.

Cllr Swash noted that he would be happy to accept the first recommendation but defer the second recommendation until further advice had been received.

The Chair agreed to go ahead with a formal vote, which was carried out by Mrs McWilliam. With respect to the recommendation to agree the changes to the Fund's Strategic Asset Allocation, the Committee voted unanimously to approve the recommendation. With respect to the second recommendation to approve the proposed changes to the Investment Strategy Statement, the vote resulted as follows:

- One vote for accepting the recommendation.
- Six votes against accepting the recommendation.
- One Member abstained from voting.

The second recommendation was therefore not agreed.

Mrs McWilliam requested that Cllr Swash provide written details of the proposed amendment for the Fund to consider and ensure appropriate advice would be provided.

RESOLVED:

- (a) The Committee agreed the changes to the Fund's Strategic Asset Allocation.
- (b) The Committee voted to defer the approval of the Investment Strategy Statement to the June Committee meeting to allow further advice to be received on a potential amendment to the current draft Statement.

39. **FUNDING STRATEGY STATEMENT**

The Chair handed over to Mr Middleman, the Fund's Actuary, to talk the Committee through the key points in this report.

- Following approval of the draft Funding Strategy Statement (FSS) by the Committee in November, the consultation with employers encouraged employers to provide feedback. A number of employers fed back generally positive responses regarding the construction of the strategy which allowed employers the flexibility to manage their own financial sustainability in the context of the Fund's improved funding position.
- The FSS set a framework with a minimum employer contribution requirement that the Fund felt was sustainable, however a number of employers expressed an intention to pay above this minimum requirement in order to further help the sustainability of contributions. Mr Middleman noted that this was a positive outcome and evidenced that the messages on sustainability had been heard and actioned.
- Following consultation with the employers, there were no changes to fundamental assumptions within the report since the draft was received by the Committee. Mr Middleman highlighted paragraphs 1.08 and 1.09, which addressed two changes to the strategy since the draft.

- Climate risk was quantified by the actuary using implications under different scenarios. This had been done on a consistent basis to analysis on the expected returns as per earlier discussions.
- Wording was added to the Termination policy, whereby employers can exit the Fund with an exit debt or credit, enabling the formal ability to review the policy, although it was noted that not any or many employers were expected to exit the Fund.

RESOLVED:

- (a) The Committee noted the activity since the November 2022 meeting, including consultation with employers.
- (b) The Committee approved the Funding Strategy Statement.

40. **INVESTMENT AND FUNDING UPDATE**

Mr Hughes updated the Committee on the Investment and Funding, highlight the following:

- Regarding the business plan update all but one of the key tasks highlighted at last Committee had been completed, detailed in 1.01.
- DLUHC recently published a consultation proposing changes to the SAB cost management process, summarised in 1.03. This was not expected to have any direct impact on the Fund.
- The Fund has been recognised by Environmental Finance as Impact Pension Fund of the Year.
- Mr Hughes highlighted a report from Robeco on the social impact of Artificial Intelligence (AI), among other studies.
- The Fund continues to identify sustainable opportunities and has made two recent commitments. These were:
 - £15 million to Newcore (Fund V), a UK-based real estate manager specialising in social infrastructures.
 - £17 million (approximately \$20 million) to Sandbrook (Fund I), a US manager's first climate infrastructure fund.
- The Fund had recently filled the Governance Administration Assistant vacancy, however two outstanding vacancies within the Finance team remained. The priority was to fill the vacant Principal Accountant role which was currently being advertised.

RESOLVED:

The Committee considered and noted the Investment and Funding update.

41. **ASSET POOLING UPDATE**

The update on pooling was presented by Mr Latham, the Head of the Pension Fund, highlighting the following key points:

- The Fund originally wrote to WPP to request an Active Sustainable Equity fund, and all 8 funds in Wales would now be making investments to this. The fund was expected to go live in April 2023, meaning that the impact of the Fund's proposed 15% allocation would not come into effect until after the March 2023 TCFD reporting date, and would therefore not be reported on until September 2024 based on the data as at March 2024.
- There had been no update regard the Link Fund Solutions Ltd matters since the last Committee discussion. Should the Host Authority provide a further update, this information would be forwarded to the Committee.
- The WPP's current focus was on procurement of the operator contract. Mr Latham and Mrs Fielder will be attending engagement days with interested parties in Cardiff, along with meeting potential WPP property managers.
- Regarding Private Markets, the commitments for Private Credit, Private Equity and Infrastructure would to be ready to go next year. Considerations were being made on how to manage the cost of this. The intention was to use Mercer for the Impact Portfolio, until an equivalent becomes available within the WPP.
- WPP training would be taking place on 27 February covering several of the matters discussed at this meeting, and the invitation was extended to all Committee and Board members.

Regarding the stock lending policy, Mr Hibbert commented on the clarification that WPP are able to lend up to 95% of any stock, for a fee. Mr Hibbert asked if there is any intention to prevent lending out stock over the voting period so they could be recalled. He also noted that the amount of shares voted in the Robeco report seemed extremely low, and requested an explanation for this.

With respect to Mr Hibbert's second question regarding the amount of shares voted, Mr Latham confirmed he would look into this. Regarding the stock lending question, Mr Latham explained that representatives of the Fund attended a training session on stock lending, which was open to JGC members only. He expected this would lead to a report going to the WPP JGC on stock lending, covering the points Mr Hibbert raised on recalling stock for voting purposes. Mr Latham assumed the position of the Fund would be to recall those stocks and be able to vote on them, but asked the Chair, who had also attended the training, to confirm this, which he did.

Mr Hibbert commented that he was pleased to see progress being made on this matter. Mr Hibbert asked about the Committee's previous agreement to write to Robeco regarding their voting on companies in the petrochemical industry carrying out exploration in order to maximise profits, and asked whether this had been sent.

Mrs Fielder noted that this had not been done as yet, as she had been waiting for Mr Hibbert to clarify the exact wording of the question to pass on to Robeco. Mr Hibbert confirmed this was included in the previous report.

RESOLVED:

The Committee noted and discussed the update.

42. **ECONOMIC AND MARKET UPDATE AND INVESTMENT STRATEGY AND MANAGER SUMMARY**

The Fund's Investment Consultant, Mr Dickson, summarised the market position and environment over the past year, highlighting factors affecting markets over the last year and the last quarter. Mr Dickson then explained how this has impacted the performance of the Fund:

- Over the last quarter (30 September to 31 December) assets were flat.
- Over the year, the Fund's performance was down overall by 10.6%, with poorer returns particularly in equities and multi-asset credit. Private Markets produced positive returns for the Fund, particularly with Sterling weakening, as did the TAA and hedge funds.
- The three year view, important for the Fund's long-term approach, continued to show positive returns.
- Mr Dickson updated the Committee on performance since the start of the calendar year when markets have been positive.

RESOLVED:

The performance of the Fund over periods to the end of December 2022 was noted by the Committee, along with the Economic and Market update which effectively set the scene.

43. **FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK**

Mr Middleman took the Committee through this report, making the following key points:

- The overall flightpath and framework were working as expected following the volatile period.
- A number of changes had been made to maintain sufficient liquidity for the framework to work as expected.
- The funding level at the valuation date 31 March 2022 was 105%, with small dips over the year but by the end of December this returned to 105% and had remained around this mark.

Mr Middleman highlighted that in times of volatility, any changes needed to react to market changes need to be made quickly. This resulted in the suggested changes to clarify delegations to the Head of Fund in the appendix to the report.

RESOLVED:

- a) The Committee noted and considered the contents of the report.
- b) The Committee approved the proposed updates to the Fund's Scheme of Delegation.

44. **PENSION BOARD MINUTES (30 September 2022)**

The Chair noted that the Committee considered a summary update at the last meeting.

RESOLVED:

The Committee noted the minutes of the Pension Board held on 30 September 2022.

45. **FUTURE MEETINGS**

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

- 29 March 2023
- 21 June 2023

RESOLVED:

The Committee noted the upcoming Committee dates.

The Chairman thanked everyone for their attendance and participation. The next formal Committee meeting is on 29 March 2023. The Chair also took the opportunity to highlight two upcoming training sessions: The WPP training on LGPS Pools and Collaboration Opportunities on 27 February, and an essential training session covering the Pension Regulator's New Single Code on 26 April. The meeting finished at 11:32pm.

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Chairman