

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 21 June 2023
Report Subject	Investment and Funding Update
Report Author	Graduate Investment Officer Trainee

EXECUTIVE SUMMARY

An investment and funding update is on each quarterly Committee agenda.

There are separate agenda items on investment performance and the funding and flight path risk management framework.

This update includes matters that are for noting which include.

- Progress with the items on the Business Plan 2023/24.
- Wales Pensions Partnership (WPP) Stewardship and Securities Lending.
- Risk register - there have been no changes to risk levels this quarter.
- 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>Usually, the three main update reports at each Committee include the latest progress against the business plan. Given we are only two months into 2023/24, there is no update dashboard included for this meeting. The dashboard will be provided at the next meeting.</p> <p>In relation to the priorities in the Funding and Investments (including accounting and audit) section of the business plan, the key points to note are as follows:</p> <ul style="list-style-type: none">• F1 (Investment Strategy Implementation) – The fund transitioned its listed equity holdings from WPP Global Opportunities Fund to WPP Sustainable Global Active Equity Fund. This is on-going. See 1.06.• F2 (Climate Change, TCFD and TNFD) and F3 (UK Stewardship Code) – This work has commenced.
1.02	<p>Current Development and News</p> <p><i>Climate risk reporting in the private sector – Review of the first year reports</i></p> <p>TPR have published a review of climate-related disclosures by occupational pension schemes. The paper sets out TPR’s preliminary observations and feedback to industry, based on their review of a selection of climate-related disclosures published by occupational pension schemes. The review relates to private pensions schemes but contains observations which may be useful for LGPS funds ahead of the implementation of TCFD reporting.</p> <p>The full article can be found here.</p>
1.03	<p><i>Actuarial Valuation Report</i></p> <p>The 31 March 2022 actuarial valuation report and certificate were signed off on 30 March 2023, and the new employer contribution rates were effective 1 April 2023. A copy of the valuation report was also sent to DLUHC in line with requirements under the LGPS Regulations. A copy of the valuation report can be found on Clwyd Pension Fund’s website.</p>
1.04	<p><i>Briefing Session on Responsible Investing</i></p> <p>Briefing sessions were held on April 26th and May 3rd covering the Governance of Pensions, Tactical Asset Allocation (Best Ideas) and Responsible Investing. A further briefing session is scheduled to be held on 2 August 2023 which will focus on Carbon Metrics and Measurement after which, it is planned to take the Investment Strategy Statement to the August 30th committee for approval.</p>
1.05	<p>Wales Pension Partnership (WPP)</p> <p>The following liquid investments are currently made through WPP. (Current Nav as at May 2023)</p>

Mandate	Current NAV	Inception
WPP Global Opportunities Equity	c.£130m	Feb 2019
WPP Multi Asset Credit	c.£232m	Aug 2020
WPP Emerging Market Equity	c.£111m	Oct 2021

In addition, the following commitments have been agreed for the first biennial Private Market vintages with the WPP Allocators from April 2023.

Allocator	Asset Class	Committed
Russel Investments	Private Credit	£50m
GCM Grosvenor	Infrastructure	£64m
Schroders	Private Equity	£80m

The WPP Allocators will be responsible for appointing private market managers. Since February's committee, GCM Grosvenor, as the WPP Infrastructure Allocator, have committed and deployed capital to two direct projects in Wales. One having three sites, the other having extensive operations in Wales.

The role of monitoring the engagement, voting and securities lending carried out by Robeco and Northern Trust on behalf of WPP lies with the WPP Joint Governance Committee (JGC), rather than the Clwyd Pension Fund Committee. However, WPP's role is to deliver the RI policies of all the Constituent Authorities.

1.06 *Transition of Assets*

During the quarter to March 2023 there were no transition of assets between mandates. However, as a result of the Investment Strategy Review, the following transitions were implemented on 21 June 2023.

Mandate	Redemption	Investment
WPP Global Opportunities Equity	c.£130m	
WPP Sustainable Global Active Equity		c.£195m*

*The additional £65m was sourced from the in-house cash holdings

Further tranches to the WPP Sustainable Global Active Equity will be implemented during 2023/24.

1.07 *Wales Pension Partnership (WPP) Responsible Investing Update*

The Fund's key priorities within its Responsible Investment (RI) policy included enhanced reporting on RI matters. Work is close to completion with WPP to produce a template for each of the Welsh Pension Fund Committees to receive information on voting, engagement and securities lending. Until the template is finalised, the Fund will provide publicly available documentation.

1.08 As an asset owner, there are opportunities to engage with companies, and also vote at Annual General Meetings, with a view to helping improve company policies in relation to environmental, social and governance matters. As WPP own stocks on behalf of the Constituent Authorities

	<p>(including Clwyd Pension Fund), they carry out voting and engagement on their behalf.</p> <p>WPP have appointed Robeco as the Voting and Engagement provider. The Deputy Head of the Clwyd Pension Fund, as part of the WPP RI sub group, has been working with Robeco to create suitable reports for Constituent Authorities showing the voting and engagement that has taken place.</p>															
1.09	<p>Appendix 1 highlights the engagement work that has been carried out on behalf of WPP from December to March 2023. This quarter provides information and case studies on the following areas of engagement:</p> <ul style="list-style-type: none"> • Lifecycle Management of Mining • Acceleration to Paris • Proxy Voting • Labour Practices in a Post Covid-19 World <p>It is important to note that the lists of stocks in the engagement report are for the WPP as a whole and may or may not be in sub funds the Clwyd Pension Fund is invested in. This is one of the areas of enhancement that is ongoing.</p> <p>Appendices 2 and 3 provide summary details for the proxy voting reports for the Global Opportunities and Emerging Market Equity Funds in which the Fund is invested. The reports cover the number of meetings and votes cast for the period to March 2023 and some of the voting highlights.</p>															
1.10	<p>Securities lending involves the owner of shares or bonds transferring them temporarily to a borrower. In return, the borrower transfers other shares, bonds or cash to the lender as collateral and pays a borrowing fee. Stock lending can, therefore, be used to incrementally increase fund returns for investors.</p> <p>WPP have appointed Northern Trust to lend securities, which are held within the WPP sub-funds, on their behalf.</p> <p>Quarterly Securities Lending reports are presented at each WPP Joint Governance Committee (JGC). The results below were presented to the JGC in March 2023.</p> <p>The total amount of WPP net revenue received for securities lending in the quarter to December 2022 was £264,263. The Clwyd Pension Fund is only invested in 3 funds which generated the revenue as shown in the following table.</p> <table border="1" data-bbox="304 1688 1370 1989"> <thead> <tr> <th>Sub Fund</th> <th>WPP Net Revenue £</th> <th>CPF Net Revenue £</th> </tr> </thead> <tbody> <tr> <td>Global Opportunities Equity (4%)</td> <td>110,257</td> <td>4,410</td> </tr> <tr> <td>Emerging Markets Equity (33%)</td> <td>5,790</td> <td>1,911</td> </tr> <tr> <td>Multi Asset Credit (35%)</td> <td>11,385</td> <td>3,985</td> </tr> <tr> <td>Total</td> <td>127,432</td> <td>10,306</td> </tr> </tbody> </table>	Sub Fund	WPP Net Revenue £	CPF Net Revenue £	Global Opportunities Equity (4%)	110,257	4,410	Emerging Markets Equity (33%)	5,790	1,911	Multi Asset Credit (35%)	11,385	3,985	Total	127,432	10,306
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1.11	<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 10.</p> <p>The Advisory Panel also receive verbal updates from key matters considered at the following Clwyd Pension Fund officer/adviser working groups:</p> <ul style="list-style-type: none"> • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • 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 4.</p>
1.12	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 4 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). • There have been no Private Market commitments agreed since the February Committee.
1.13	<p>Private Market Allocations</p> <p>As reported to previous Committees, due to the WPP currently appointing Allocators to implement private markets, Mercer as the Fund's investment consultant will continue to work with officers to determine the Fund's requirements for local and impact opportunities.</p>
1.14	<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. The Fund and Mercer continue to be busy considering new allocations for 2023/24.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>The successful candidate for the Principal Accountant vacancy will commence on 24 June 2023. A proportion of the work of the team continues to be outsourced to the Fund's consultants. This is a temporary measure while training is undertaken. The recruitment for the Graduate Trainee Accountant is underway and is expected to be appointed by late summer.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 5 provides the dashboard and risk register highlighting the current risks relating to investments and funding matters.
4.02	Some risks relating to Funding levels and Investment targets remain just ahead of target due to current market uncertainty. In addition, work continues on the Fund's RI Policy to bring this closer to target over time (F9) and includes additional actions relating to the RI Plan and Framework.

5.00	APPENDICES
5.01	Appendix 1 – WPP Engagement Report Q1 2023 Appendix 2 – WPP Global Opportunities Summary Voting Q1 2023 Appendix 3 – WPP Emerging Market Equity Summary Voting Q1 2023 Appendix 4 – Delegated Responsibilities Appendix 5 – Risk dashboard and register – Investments and Funding

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None. Contact Officer: Ieuan Hughes, Graduate Investment Officer Trainee, Clwyd Pension Fund E-mail: ieuan.hughes@flintshire.gov.uk

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 Mercer, 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.

(p) **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.

(q) **OECD Countries** – Organisation for Economic Co-operation and Development; 38 Member countries from North and South America to Europe and Asia-Pacific.

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

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