

CLWYD PENSION FUND COMMITTEE

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| Date of Meeting | Wednesday, 30 August 2023 |
| 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 maintain signatory status of the 2020 Stewardship Code (the "Code").

The Fund became a signatory to the new Code in February 2023, after its successful application in October 2022. The Fund is committed to reporting on the requirements of the Code, with the aim of maintaining signatory status.

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.

Maintaining signatory status 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 2023. The attached document is the 31 March 2023 submission working draft. This report 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

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| 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

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| 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 second application to the Financial Reporting Council (FRC) to maintain 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 Fund since became a signatory to the new 2020 Code in February 2023, after its successful application in October 2022. The Fund is committed to reviewing the requirements of the Code, with the aim of maintaining signatory status. 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 stakeholders 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) are current signatories of the Code.</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>Being a signatory 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> |

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| 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. The Fund’s beliefs and priorities were documented and consulted on with employers as part of reviews of the Fund’s Responsible Investment Policy in 2019, 2021 and 2023 (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 this year’s submission is 31 October 2023. This report is the first working draft and although comprehensive, any thoughts 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> |

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| 1.11 | <p><i>Engagement</i></p> <p>This area demonstrates all aspects of engagement, including engagement of the underlying managers on behalf of the Fund as well as engagement conducted on behalf of the Funds through pooled fund holdings with the WPP. WPP has appointed Robeco as its Voting and Engagement provider who assists in formulating and maintaining a voting policy and engagement principles that are in keeping with the LAPFF. In addition, Robeco are responsible for implementing the voting policy and reporting on it.</p> <p>Several examples are provided on engagement including an example of enhanced engagement, collaboration and escalation. 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.</p> <p>In addition, it discusses how the Fund has actively engaged with other Funds and asset managers to develop new sub-funds within WPP, in particular, the latest WPP Sustainable Active Equity Fund.</p> |
| 1.12 | <p><i>Exercising rights and responsibilities</i></p> <p>This area demonstrates how as mentioned in section 1.11 the Fund has delegated voting rights of all pooled assets to the WPP. The Fund also delegates voting rights of its underlying Best Ideas Portfolio holdings to the underlying managers such as Legal & General, Insight and BlackRock.</p> <p>This section explains voting policy and voting areas, as well as providing several examples of voting and engagement which Robeco and the underlying managers of the Best Ideas Portfolio have taken on behalf of the Fund. Engagement and voting examples included in the report focus on areas such as:</p> <ul style="list-style-type: none"> • Carbon emission reduction targets • Human rights • Board composition • Climate action • Remuneration policies <p>Although exercising rights and responsibilities is typically more developed for listed equity managers, the Fund’s expectations regarding engagement for other asset class managers is discussed in this section.</p> |
| 1.13 | <p>Key points to note</p> <p>Whilst this is the Funds second submission to the 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.</p> <p>Feedback from the FRC from last year’s submission has been reviewed</p> |

and updates have been made where possible to incorporate further information highlighted. The information below highlights some of the additions made as a result, which have been included in the latest report:

- Details of the Fund’s updated communication policy and how these changes will allow stakeholders to better understand their benefits, as well as increasing efficiency by reducing the need for face-to-face meetings and phone calls.
- Examples of training that the Fund’s Officers have undertaken over the year that have aided them in the stewardship of the Fund.
- How the Fund consults with employers when setting or reviewing policies.
- Details of the Fund’s new exclusion framework policy in relation to listed equities.
- A more granular breakdown of the Fund’s investments by geography.
- Changes in the Fund’s private market allocations and how target allocations have been increased over the period to focus on sustainable, local and impact investments.
- In respect of the Best Ideas Portfolio (BIP), how the Fund expects Mercer to comply with the RI policy in or explain any exceptions that is required to efficiently operate. In particular, looking to allocate to ESG1 or ESG2 funds on the Mobius platform when strategic decisions are made for the BIP.
- Restructuring of collaborative engagement examples provided in principle 10.
- Details of engagement by other holdings within the Fund such as the Hedge Fund position.
- Details on the voting and engagement of the underlying managers of Best Ideas Portfolio, has been outlined within the report, to further demonstrate how managers who vote and engage on behalf of the Fund have done so over the period.
- Provided clarity on which funds the voting and engagement examples relate too.
- Expanded on the upcoming escalation policy being drafted by the WPP with the support of officers through the RI-sub group, which is looking to provide a process for escalated engagements once these have been highlighted by Robeco.

The following paragraphs highlight some of the key areas that have been included in the working draft submission.

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The submission outlines the main changes that have made to the Fund’s Responsible Investment Policy in recent years, including:

- 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.

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| | <ul style="list-style-type: none"> • Within the Fund’s allocation to global equity there is an underlying 15% strategic allocation commitment to sustainable equity. This allocation will be achieved through investment in the WPP Sustainable Active Equity Fund. <p>The Fund is currently in the process of agreeing the new Investment Strategy Statement (ISS), which will include the new exclusions framework in respect of the Fund’s listed equity holdings. Wording has been added in respect of the exclusions framework policy to the Stewardship Report in anticipation of approval at this Committee and subsequent employer consultation as a result.</p> |
| 1.15 | <p>Historically, the Fund has always been committed to making responsible decisions and acting in a responsible manner. In 2012, the Fund engaged 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), which can be found here.</p> |
| 1.16 | <p>In 2023, the Fund increased its strategic target allocation to Local/Impact investments within private markets from 4% to 6% as part of the investment strategy review, this represented an increase of 50% on the previous strategic target. Investments made within the Local/Impact private markets portfolio can be made to any asset class, so long as the strategy has either a clear and demonstrable Impact focus, or a mandate to invest locally within the United Kingdom. Where possible, investments local to Wales are considered.</p> <p>Outside of the Local/Impact portfolio, the Fund also endeavoured to make impact or sustainability-focused investments across the wider private markets portfolio (Private Equity, Private Debt, Infrastructure and Real Estate) where possible, subject to the availability of appropriate investable opportunities in the market.</p> |
| 1.17 | <p>The Fund works in collaboration with the WPP on all pooling matters and is 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 the launch of the WPP Sustainable Active Equity Fund, which was launched in June 2023. The Fund collaborated with other funds within the pool, as well as WPP and Russell in designing a detailed specification for the Fund.</p> |
| 1.18 | <p>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</p> |

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| | Principles and advancing the impact investing agenda. |
| 1.19 | The deadline for submission is 31 October 2023. 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. |

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| 2.00 | RESOURCE IMPLICATIONS |
| 2.01 | None directly as a result of this report. |

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

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| 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 |

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| 5.00 | APPENDICES |
| 5.01 | Appendix 1 – Draft Clwyd Pension Fund submission for Stewardship Code |

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| 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> |

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| 7.00 | GLOSSARY OF TERMS |
| 7.01 | (a) 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. |

- (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.
- (c) **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.
- (d) **Clwyd Pension Fund (the “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.
- (e) **Clwyd Pension Fund Committee (the “Committee”)** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.
- (f) **Chartered Institute of Public Finance and Accountancy (CIPFA)** – UK based accountancy membership and standard setting body.
- (g) **Department for Levelling Up, Housing & Communities (DLUHC)** – supports communities across the UK to thrive, making them great places to live and work.
- (h) **Funding Strategy Statement (FSS)** – the main document that outlines how we will manage employers contributions to the Fund.
- (i) **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, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- (j) **Financial Reporting Council (FRC)** – regulates auditors, accountants and actuaries, and sets the UK’s Corporate Governance and Stewardship Codes.
- (k) **Investment Strategy Statement (ISS)** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (l) **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
- (m) **Local Government Pension Scheme (LGPS)** – the national scheme, which Clwyd Pension Fund is part of.
- (n) **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.

- (o) **Pensions and Lifetime Savings Association (PLSA)** – a trade association for those involved in designing, operating, advising and investing in all aspects of workplace pensions.
- (p) **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.
- (q) **Private Market Investments** – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments.
- (r) **Scheme 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.
- (s) **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.
- (t) **Sustainable Finance Disclosure Regulation (SFDR)** - Imposes mandatory ESG disclosure obligations for asset managers and other financial market participants (FMP). SFDR aims to bring a level playing field for FMP and financial advisors on transparency in relation to sustainability risks the consideration of adverse sustainability impacts in their investment processes and the provision of sustainability-related information with respect to financial products.
- (u) **Society of Local Authority Chief Executives (SOLACE)** - A leading members' network for local authority government and public sector professionals through the UK.
- (v) **Tactical Asset Allocation Group (TAAG)** – a group consisting of The Clwyd Pension Fund Manager and consultants from Mercer, the Fund Consultant.
- (w) **Task Force on Climate Related Financial Disclosures (TCFD)** - TCFD recommendations provide guidance to all market participants on the disclosure of information on the financial implications of climate-related risks and opportunities so that they can be integrated into business and investment decisions.
- (x) **Taskforce on Nature Related Financial Disclosures (TNFD)** - Builds upon TCFD but acting on behalf of nature. It is a nature-related framework to drive better understanding and reporting of nature-related risks and opportunities.
- (y) **UK Stewardship Code 2020** – set of high standards for those investing money on behalf of UK savers and pensioners, and those that support them.

(z) **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.

(aa) **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.

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