

CLWYD PENSION FUND COMMITTEE

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| Date of Meeting | Wednesday, 30 August 2023 |
| Report Subject | Investment and Funding Update |
| Report Author | Graduate Investment Officer Trainee |

EXECUTIVE SUMMARY

The former Asset Pooling report has been integrated into the usual Funding and Investment Update report.

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 contains matters for noting and includes:

- Progress with the items on the Business Plan 2023/24.
- Wales Pensions Partnership (WPP)
- Risk register – there have been no changes to risk levels since the last Committee.
- Delegated responsibilities – actions taken by Officers since the last Committee meeting.

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 and various WPP sub-groups.

RECOMMENDATIONS

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| 1 | That the Committee consider and note the update and provide any comments. |
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REPORT DETAILS

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| 1.00 | INVESTMENT AND FUNDING RELATED MATTERS |
| 1.01 | <p>Business Plan Update</p> <p>Appendix 1 provides a summary of progress concerning the Investment and Funding section of the Business Plans for 2023/24. Key tasks 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.• F2 (Climate Change, TCFD and TNFD) – This work remains ongoing with Mercer.• F3 (UK Stewardship Code) – The draft report is included in agenda item 6 for Committee to consider and delegate approval to the Head of Clwyd Pension Fund, ahead of the 31 October 2023 submission deadline.• F4 (LGPS Investment Related Developments) – The Department for Levelling Up, Housing and Communities (DLUHC) published the Consultation on Next Steps for Investments in the LGPS in England & Wales in July 2023 (see para 1.02). This is covered in agenda item 5.• F5 (Asset Pooling) – The Fund continues to work closely with the WPP on the Operator Procurement process, and its liquid and private market strategies. |
| 1.02 | <p>Current Development and News</p> <p><i>Consultation on Next Steps for Investments in the LGPS in England & Wales</i></p> <p>DLUHC has issued a consultation on several investment-related proposals for the LGPS. These include imposing a deadline of 31 March 2025 for the transition of listed assets from funds to pools; proposals around increasing LGPS investments in private equity and projects that meet the government's levelling up agenda. Clwyd Pension Fund will submit its response ahead of the Monday 02 October 2023 deadline, which is presented in further detail in agenda item 5.</p> <p><i>Publication of the 2022 Scheme Valuation Report</i></p> <p>The Scheme Advisory Board published its 2022 Scheme Valuation Report on 10 August 2022. The report compiles data from all local fund valuation reports and aims to provide an overview of the vital issues faced by scheme members, employers, and other stakeholders. Key highlights from the report include an increase in the average funding levels (on a local funding basis), increased average contribution rates to meet future service costs, and a fall in overall contribution rates – reflecting lower deficit contributions.</p> <p>The report can be viewed in full here.</p> |
| 1.03 | <p>Flintshire County Council's Climate Change Committee</p> <p>On 10 July Flintshire County Council's Climate Change Committee launched a public inquiry asking for views from "professional, residents and members of the public" on the Fund's net zero investment targets and divestment from fossil fuel companies. The closing date for feedback was</p> |

| | 4 August. | | | | | | |
|----------------|--|-------------|------|------------|----------------|----------------------|-------------|
| 1.04 | <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 demonstrates the Fund's compliance with the existing approved Investment Strategy. A summary of this performance is shown in the report included in agenda item 11.</p> <p>The Advisory Panel also receives verbal updates relating to the reports produced following the 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 3.</p> | | | | | | |
| 1.05 | <p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated certain responsibilities to Officers or individuals. Appendix 3 highlights where the use of delegated powers have been utilised. In summary:</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). • The following commitment has been made in-line with the Fund's Investment Strategy and recommendation from Mercer, the Fund's Investment Consultant. <table border="1"> <thead> <tr> <th>Asset Class</th> <th>Fund</th> <th>Commitment</th> </tr> </thead> <tbody> <tr> <td>Infrastructure</td> <td>Qualitas, Q-Energy V</td> <td>€12m (£10m)</td> </tr> </tbody> </table> <p>Q-Energy V is a European renewables value-add strategy that seeks to assemble a portfolio of primarily small-scale solar and wind farms, as well as energy storage and biogas.</p> | Asset Class | Fund | Commitment | Infrastructure | Qualitas, Q-Energy V | €12m (£10m) |
| Asset Class | Fund | Commitment | | | | | |
| Infrastructure | Qualitas, Q-Energy V | €12m (£10m) | | | | | |
| 1.06 | <p>Private Market Allocations</p> <p>All future commitments to infrastructure, private debt, and private equity investments will be made through the WPP by the appointed Allocators. The property Allocator procurement process remains ongoing. Separately, Mercer will continue to assist fund officers to identify appropriate local and impact investment opportunities.</p> | | | | | | |
| 1.07 | <p>As part of this process, all relevant reports arising from Mercer's full due diligence process for any recommended managers is shared with Fund Officers to be considered and discussed. Meetings are then conducted between recommended managers and Fund Officers to discuss the mandate in greater detail, and to facilitate any further information required by the Fund before making a final decision. The Fund and Mercer continue to explore new impact and local opportunities for 2023/24.</p> | | | | | | |
| 1.08 | <p>WALES PENSION PARTNERSHIP (WPP)</p> <p>Joint Governance Committee (JGC)</p> <p>The last WPP JGC meeting was held on 19 July 2023. The draft minutes</p> | | | | | | |

of that meeting are attached as Appendix 7.

The JGC considered or approved the following:

- Clwyd Pension Fund Chair, Cllr Ted Palmer, was appointed as Chair of WPP for 2023/24.
- An update from the Host Authority.
- A review of the Risk Register which was updated to reflect the changes made during Q2 2023.
- An annual review of the WPP's Climate Risk Policy and Stewardship Policy. The JGC approved updates to both policies. The Climate Risk Policy has been amended to better-reflect the Paris agreement goals.
- The Operator provided an update on the pooled assets (including passive investments) totalling £15.6bn as at March 2023.
- An update on investment performance was provided to March 2023. Clwyd Pension Fund investments include the Global Opportunities Equity Fund (invested since February 2019, exited in June 2023), Multi Asset Credit Fund (invested since August 2020), and the Emerging Markets Equity Fund (invested since October 2021). The Global Opportunities Fund had outperformed the benchmark to date. The Emerging Market Equity and Multi Asset Credit Funds remained behind their respective benchmarks since inception.

Further information on the topics highlighted above is available in the full public agenda [here](#).

Five additional items were discussed during the non-public part of the meeting. These included:

- The Securities Lending Performance Review 2022/23
- The quarterly Engagement report was received from Robeco.
- Responsible Investment and Climate Risk reports were noted for the Global Growth and Global Opportunities sub-funds.
- The following sub-funds were reviewed as part of Hyman's Robertson's annual performance review:
 - UK Opportunities
 - Global Credit
 - Global Government Bond
- The approval of the Operator Procurement evaluation criteria.

Further details of these are available in item 13 of the agenda.

1.09

Officer Working Group & Sub-Groups

The Deputy Head of Clwyd Pension Fund and the Graduate Investment Officer both attend the WPP Private Markets and Responsible Investment (RI) sub-group meetings. The Fund regards both areas as important and complex due to 29% of our assets being allocated to private markets and our ambitions within the Fund's Responsible Investment policy, which also includes the Climate Risks objectives.

The Head of Clwyd Pension Fund attends the Risk sub-group's quarterly meetings. Both the Head and Deputy Head of Clwyd Pension Fund attend

the Procurement (of the Operator contract) sub-group. All four sub-groups report back to the Officer Working Group (OWG).

An update was provided by WPP's Oversight Advisor, Hyman's Robertson, and the Host Authority to the OWG on 24 July 2023 with regards to the ongoing work of these groups. The main items discussed were:

- A review of the WPP Risk Register for Q3 2023.
- The implementation of the new Breaches & Errors policy.
- A further update on the Operator contract procurement.
- Investment performance reports provided by Link/Russell.

The Link Group sale completion is now subject to regulatory approval, after the required threshold of existing clients to move to Waystone was achieved. The latest update regarding the Link Group sale was communicated by the Fund's Governance Administration Assistant to Committee members on 08 August 2023. Any further updates will be shared as they become available.

The WPP provides training for Officers, JGC and Constituent Authority committee and board members. The next training session will be held on 21 September 2023 and will cover Responsible Investment.

1.10

The following liquid investments are made through WPP and have been updated to reflect the Committee's decision to transition from Global Opportunities Equity to the Sustainable Active Equity fund in June 2023. Current NAV as at June 2023.

| Mandate | Current NAV | Inception |
|-------------------------------|--------------------|------------------|
| WPP Sustainable Active Equity | c.£199m | Jun 2023 |
| WPP Multi Asset Credit | c.£236m | Aug 2020 |
| WPP Emerging Market Equity | c.£113m | Oct 2021 |

In addition, the following commitments have been agreed for the first biennial Private Markets 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 are responsible for appointing private market managers. GCM Grosvenor, the Infrastructure Allocator have committed and deployed capital to two direct investments in Wales.

1.11

Private Markets Update

The Private Equity sub-group is continuing its work with bFinance to finalise the tender specifications document ahead of the WPP's tender process to select and appoint a Property Allocator later this year.

It was agreed at the June 2023 committee that the delegated powers to Officers relating to the selection, appointment and dismissal of Fund Managers and investments into new mandates/emerging opportunities would be limited to investments outside of the WPP. The Delegation to Fund Officers has been updated to reflect this.

1.12

Wales Pension Partnership (WPP) Responsible Investing Update

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| | <p>The Fund's key priorities within its Responsible Investment (RI) policy includes enhancing reporting on RI matters.</p> <p>The Fund has encouraged the production of an RI report for each of the Welsh Pension Fund Committees that details information concerning voting, engagement and securities lending. The report is close to being finalised and will be included within the Clwyd Pension Fund Committee papers at the November 2023 meeting. The Fund will provide publicly available documentation until the report is published.</p> |
| 1.13 | <p>Since last reported to Committee, the RI sub-group (RIWG) met once in July 2023. The next meeting will take place on 05 September 2023. The main areas discussed during the last meeting were:</p> <ul style="list-style-type: none"> • An update was provided on the stewardship-related activities undertaken on behalf of the WPP. Stewardship themes were also reviewed. • Further discussions around the implementation of an Escalation Policy in the event of failed engagement. • The application of a restriction list on securities lending is to be assessed. • RI training requirements for the OWG and JGC. • The provisional results of the All-Wales Climate Report were provided to the RIWG. The report will be shared once finalised. <p>As mentioned in the previous section, the quarterly RI report is close to being finalised. Officers were hopeful the report would be available to share at August Committee, however, due to a delay during the review process, the report has been delayed momentarily. It is expected that the report will be published well-ahead of our next meeting and will be included in the November 2023 Committee papers.</p> |
| 1.14 | <p>There are opportunities as an asset owner to engage with companies and vote at Annual General Meetings, with the aim to help improve company policies relating to environmental, social and governance matters. The WPP own stocks on behalf of the Constituent Authorities (including Clwyd Pension Fund) and carry out voting and engagement on their behalf.</p> <p>WPP appointed Robeco as the Voting and Engagement provider. The Deputy Head of Clwyd Pension Fund, as part of the WPP RI sub-group, has collaborated with Robeco to create suitable reports for Constituent Authorities that details when voting and engagement has taken place.</p> |
| 1.15 | <p>Appendix 4 highlights the engagement work that has been undertaken on behalf of WPP from March to June 2023. This quarter provides information and case studies on the following areas of engagement:</p> <ul style="list-style-type: none"> • Biodiversity • Human Rights Due Diligence for Conflict-Affected and High-Risk Areas • Good Governance • Proxy Voting – Market Insight <p>It is important to note that the lists of stocks in the engagement report concern the WPP as a whole and may not be in the sub-funds in which the Clwyd Pension Fund are invested. Enhancements in this area continue to</p> |

| | <p>be ongoing.</p> <p>Appendices 4 and 5 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 made during the period to June 2023, and some of the voting highlights.</p> | | | | | | | | | | | | | | | |
|--------------------------------|---|-------------------|-------------------|-------------------|--------------------------------|---------|--------|-------------------------------|--------|--------|--------------------------|--------|--------|-------|---------|--------|
| 1.16 | <p>Securities Lending involves the owner of shares or bonds transferring their ownership 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, generate income and incrementally increase fund returns for investors.</p> <p>Northern Trust are responsible for managing any Securities Lending within the WPP sub-funds on behalf of the WPP.</p> <p>Quarterly Securities Lending reports are presented at each WPP Joint Governance Committee (JGC). The results below were presented to the JGC in July 2023.</p> <p>The total amount of WPP net revenue for Securities Lending during the quarter to March 2023 was £1,129,507. The Clwyd Pension Fund is only invested in three funds which generate revenue, of which our aggregated share can be found in the table below.</p> <table border="1"> <thead> <tr> <th>Sub Fund</th> <th>WPP Net Revenue £</th> <th>CPF Net Revenue £</th> </tr> </thead> <tbody> <tr> <td>Global Opportunities Fund (4%)</td> <td>508,673</td> <td>20,347</td> </tr> <tr> <td>Emerging Markets Equity (33%)</td> <td>35,042</td> <td>11,564</td> </tr> <tr> <td>Multi Asset Credit (35%)</td> <td>53,079</td> <td>18,578</td> </tr> <tr> <td>Total</td> <td>596,794</td> <td>50,489</td> </tr> </tbody> </table> | Sub Fund | WPP Net Revenue £ | CPF Net Revenue £ | Global Opportunities Fund (4%) | 508,673 | 20,347 | Emerging Markets Equity (33%) | 35,042 | 11,564 | Multi Asset Credit (35%) | 53,079 | 18,578 | Total | 596,794 | 50,489 |
| Sub Fund | WPP Net Revenue £ | CPF Net Revenue £ | | | | | | | | | | | | | | |
| Global Opportunities Fund (4%) | 508,673 | 20,347 | | | | | | | | | | | | | | |
| Emerging Markets Equity (33%) | 35,042 | 11,564 | | | | | | | | | | | | | | |
| Multi Asset Credit (35%) | 53,079 | 18,578 | | | | | | | | | | | | | | |
| Total | 596,794 | 50,489 | | | | | | | | | | | | | | |
| 1.17 | <p>Operator Contract Procurement Update</p> <p>The latest JGC meeting was held on 19 July 2023, where Hymans Robertson presented the proposed evaluation criteria which was approved by the JGC. The evaluation criteria is now to be approved by the individual Constituent Authorities. Please refer to agenda item 13.</p> | | | | | | | | | | | | | | | |

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| 2.00 | RESOURCE IMPLICATIONS |
| 2.01 | <p>There is considerable time allocated by the Head and Deputy of the Clwyd Pension Fund in delivering and monitoring the WPP Business Plan which is not separately recognised in the Clwyd Pension Fund budget; this consequently results in greater reliance on external advisors for local matters.</p> |
| 3.00 | CONSULTATIONS REQUIRED / CARRIED OUT |
| 3.01 | <p>None directly as a result of this report.</p> |

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| 4.00 | RISK MANAGEMENT |
| 4.01 | Appendix 2 provides the dashboard and risk register highlighting the current risks relating to investments and funding matters. |
| 4.02 | <p>The way in which 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, the consultation published by the Department for Levelling Up, Housing and Communities (DLUHC) introduces further implications for the Fund to consider.</p> <p>The WPP risk register is included in the JGC agenda. As at March 2023, of the nine risks covered, six are on target; the remaining three are currently behind target. These included:</p> <ul style="list-style-type: none"> • Difference of opinion/ or views within the WPP can not be reconciled. • WPP 's Operator fails to deliver on its contractual obligations or stops providing Operator services due to exiting the market or regulatory restrictions. • The WPP is not prepared for the outcomes of any consultation or regulatory change <p>The Head of Clwyd Pension Fund continues to attend quarterly WPP Risk sub-group meetings.</p> |

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| 5.00 | APPENDICES |
| 5.01 | <p>Appendix 1 – Business Plan Appendix 2 – Risk Dashboard and Register – Investments and Funding Appendix 3 – Delegated Responsibilities Appendix 4 – WPP Engagement Report Q1 2023 Appendix 5 – WPP Global Opportunities Summary Voting Q1 2023 Appendix 6 – WPP Emerging Market Equity Summary Voting Q1 2023 Appendix 7 – JGC 19 July 2023 Minutes</p> |

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| 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>Full hyperlinks for referred to information:</p> <ul style="list-style-type: none"> • 1.02 – SAB 2022 Scheme Valuation Report – https://lgpsboard.org/index.php/2022-valuations-report • 1.03 – FCC Climate Change Committee Public Inquiry – Achieving Net Zero Carbon – https://www.flintshire.gov.uk/en/Resident/Council-Apps/NewsPortlet.aspx?id=13539 • 1.08 – JGC Public Agenda 19 July 2023 https://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CIId=234&MIId=6585&Ver=4 |

| 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 consultants from Mercer, the Fund Consultant.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(i) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(j) ISS – Investment Strategy Statement – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.</p> <p>(k) FSS – Funding Strategy Statement – the main document that outlines how we will manage employers’ contributions to the Fund</p> <p>(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,</p> |

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.
- (r) **Inter-Authority Agreement (IAA)** – the governance agreement between the eight Wales pension funds for purposes of pooling.
- (s) **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.
- (t) **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.
- (u) **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.

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