

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 March 2024
<b>Report Subject</b>	Investment and Pooling Update
<b>Report Author</b>	Graduate Investment Officer

### EXECUTIVE SUMMARY

An Investment and Pooling Update is on each quarterly Committee agenda.

There is a separate agenda item for Funding and Investment Performance.

This update includes the following matters which are for noting:

- Progress with the items on the Business Plan 2023/24.
- Wales Pensions Partnership (WPP)
- Responsible Investment Update
- Private Markets Update
- The Spring Budget 2024
- Delegated Responsibilities – actions taken by Officers since the last Committee meeting.
- Risk Register – there have been no changes to the risk register 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 and represent the interests of the Clwyd Pension Fund on the Officer Working Group (OWG) and various WPP sub-groups.

### RECOMMENDATIONS

1	Committee to consider and note the update and provide any comments.
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### REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND POOLING RELATED MATTERS</b>
1.01	<p><b>Business Plan Update</b></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"> <li>• F1 (Investment Strategy Implementation) – Complete.</li> </ul>

	<ul style="list-style-type: none"> <li>• F2 (Climate Change, TCFD and TNFD) – On target. As TNFD is currently in its early stages of development, reporting will be deferred with anticipation for future implementation and progress within the Fund’s 2024/25 Business Plan.</li> <li>• F3 (UK Stewardship Code) – Complete.</li> <li>• F4 (LGPS Investment Related Developments) – Complete.</li> <li>• F5 (Asset Pooling) – Complete.</li> <li>• F8 (Review of Investment Strategy Review) – Complete.</li> </ul>																				
1.02	<p><b>Wales Pension Partnership (WPP)</b></p> <p><i>Joint Governance Committee (JGC)</i></p> <p>A verbal update will be provided to Committee for the JGC meeting that was held on 13 March 2024. Further information, including the full public agenda for the most recent JGC meeting can be found <a href="#">here</a>.</p> <p>The JGC considered or approved the following points at the 13 December 2023. The draft minutes of that meeting are attached as Appendix 2.</p> <ul style="list-style-type: none"> <li>• The Host Authority provided an update in relation to work that has been completed since the previous JGC meeting, including the Operator and Real Estate procurement. The procurement exercise for the Real Estate Allocator is expected to be brought to the July 2024 JGC for approval.</li> <li>• The OWG reviewed the Training Policy and Rebalancing &amp; Alteration Policy, as part of its regular review process.</li> <li>• The JGC were provided an update on WPP’s liquid assets’ investment performance to September 2023. Clwyd Pension Fund’s 1-year investment performance to 30 September 2023 is detailed in the table below.</li> </ul> <table border="1" data-bbox="320 1223 1385 1485"> <thead> <tr> <th>Mandate</th> <th>Inception</th> <th>Current Net Asset Value</th> <th>Performance</th> <th>Benchmark</th> </tr> </thead> <tbody> <tr> <td>Multi Asset Credit</td> <td>Aug 20</td> <td>c.£236m</td> <td>10.0%</td> <td>8.3%</td> </tr> <tr> <td>Emerging Markets</td> <td>Oct 21</td> <td>c.£113m</td> <td>2.9%</td> <td>3.7%</td> </tr> <tr> <td>Sustainable Active Equity*</td> <td>Jun 23</td> <td>c.£195m</td> <td>-1.8%</td> <td>0.6%</td> </tr> </tbody> </table> <p>*3-month investment performance has been shown due to the holding period being less than 1-year.</p>	Mandate	Inception	Current Net Asset Value	Performance	Benchmark	Multi Asset Credit	Aug 20	c.£236m	10.0%	8.3%	Emerging Markets	Oct 21	c.£113m	2.9%	3.7%	Sustainable Active Equity*	Jun 23	c.£195m	-1.8%	0.6%
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1.03	<p><b>Responsible Investment Update</b></p> <p><u>Clwyd Pension Fund</u></p> <p><i>FRC UK Stewardship Code 2020</i></p> <p>Following the successful renewal application to maintain the Fund’s status as a signatory to the FRC UK Stewardship Code, the Fund acknowledges areas for improvement identified during the assessment process.</p> <p>Moving forward, the Fund is committed to addressing these recommendations to further bolster its adherence to stewardship principles and ensure transparency in its operations.</p>																				

1.04

WPP*Responsible Investment Working Group (RIWG)*

The Fund's key priorities within its Responsible Investment (RI) policy include enhancing reporting on RI matters.

The Responsible Investment sub-group (RIWG) has met once since the Fund's last Committee meeting in November 2023. The next meeting is scheduled for 11 April 2024. The focus areas were:

- Climate and ESG risk reports for the credit-focused sub-funds (excluding Multi Asset Credit) were presented to the Constituent Authorities.
- The All-Wales Climate Report (AWCR) being published in March 2024.
- Initial discussions regarding the procurement of the WPP Voting and Engagement provider.

Responsible Investment (RI) reporting has now been developed by WPP. The RI report for Q4 2023 summarises WPP's sub-fund stock exposures, including voting and engagement, securities lending, climate, and ESG metrics and is included in Appendix 3. The report has been provided to each Constituent Authority and includes the three sub-funds in which Clwyd Pension Fund is invested.

The private quarterly WPP Engagement Report and Securities Lending Report will continue to be directly shared with committee members.

*Securities Lending*

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.

Northern Trust are responsible for managing any Securities Lending within the WPP sub-funds on behalf of the WPP.

Quarterly Securities Lending reports are presented at each WPP Joint Governance Committee (JGC). The results below were presented to the JGC in December 2023.

The total amount of WPP net revenue for Securities Lending during the quarter to September 2023 was £219,901. The Clwyd Pension Fund is only invested in two funds which generate revenue, of which our aggregated share can be found in the table below.

<b>WPP Sub-fund</b>	<b>WPP Net Revenue</b>	<b>CPF Net Revenue</b>
Emerging Markets Equity (33%)	£4,931	£1,627
Multi Asset Credit (35%)	£13,190	£4,617
<b>Total</b>	<b>£18,121</b>	<b>£6,244</b>

The WPP Sustainable Active Equity Fund does not utilise Securities Lending.

1.05	<p><b>Private Markets Update</b></p> <p>All future commitments to Infrastructure, Private Debt, and Private Equity investments will be made through WPP by the appointed Allocators. The Fund’s strategic allocation to these asset classes is 19%.</p> <p>Mercer will continue to assist Fund Officers in identifying Local and Impact investments, which has a strategic allocation of 6%, until WPP can accommodate the Fund’s ambitions in this area.</p>																				
1.06	<p><u>Clwyd Pension Fund</u></p> <p>The Fund has made one new investment since the last Committee meeting in November. Fund Officers agreed to invest in Mercer’s Private Investment Partners VII Global Impact Fund (“PIP VII”), whilst the WPP does not currently offer Impact-based investment opportunities.</p> <table border="1" data-bbox="320 674 1385 786"> <thead> <tr> <th>Asset Class</th> <th>Fund</th> <th>Commitment</th> </tr> </thead> <tbody> <tr> <td>Impact / Local</td> <td>Mercer PIP VII Global Impact Fund</td> <td>£40m</td> </tr> </tbody> </table> <p>PIP VII is categorised as an Article 8 fund under EU SFDR, and emphasises environmental and social strategies in its investment approach. The fund has a global focus but is tilted towards Western Europe and North America and will primarily invest in Real Assets and Private Equity.</p> <p>Annual impact reports will be produced for the Global Impact Fund detailing Responsible Investment (RI) and Environmental, Social, and Governance (ESG) metrics. These reports will offer a comprehensive overview of the fund’s performance in key areas, providing stakeholders with transparent insight into the real-world impact of investments.</p> <p>The Fund is dedicated to actively seeking out promising investment prospects within Clwyd and throughout Wales, with a firm commitment to making at least one annual allocation towards local opportunities.</p>	Asset Class	Fund	Commitment	Impact / Local	Mercer PIP VII Global Impact Fund	£40m														
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1.07	<p><u>WPP</u></p> <p>The following commitments have been agreed for the first Private Markets vintages with the WPP Allocators from April 2023.</p> <table border="1" data-bbox="320 1536 1385 1727"> <thead> <tr> <th>Allocator</th> <th>Asset Class</th> <th>Committed</th> <th>Quarter</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Russell Investments</td> <td>Private Credit</td> <td>£50m</td> <td>c.-£1.4m*</td> <td>c.£4.7m</td> </tr> <tr> <td>GCM Grosvenor</td> <td>Infrastructure</td> <td>£64m</td> <td>c.£7.1m</td> <td>c.£14.5m</td> </tr> <tr> <td>Schroders</td> <td>Private Equity</td> <td>£60m</td> <td>c.£4.6m</td> <td>c.£13.5m</td> </tr> </tbody> </table> <p><i>*The reduction of c.£1.4m to Russell Investment’s deployed capital figure (£6.1m previously reported) is attributed to an equalisation payment, prompted by higher commitment amounts from the other Welsh authorities.</i></p> <p>The WPP Allocators are tasked with appointing private market managers. All three Allocators are deploying capital on behalf of WPP within their respective asset classes.</p>	Allocator	Asset Class	Committed	Quarter	Total	Russell Investments	Private Credit	£50m	c.-£1.4m*	c.£4.7m	GCM Grosvenor	Infrastructure	£64m	c.£7.1m	c.£14.5m	Schroders	Private Equity	£60m	c.£4.6m	c.£13.5m
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1.08	<p><b>Other Matters</b></p> <p><i>Spring Budget 2024</i></p> <p>The Government will introduce revised annual reporting guidelines for Local Government Pension Schemes, which will include a summary of their asset allocations, specifically highlighting UK listed equity investments. Additionally, funds will be subject to enhanced transparency regarding the progress of pooling activities through the implementation of a standardised data return. These requirements are set to come into effect in April 2024.</p> <p>It was also noted that the Government would look to work with the LGPS to explore the potential contribution they could make in facilitating investment in new children’s homes.</p>
1.09	<p><b>Delegated Responsibilities</b></p> <p>The Pension Fund Committee has delegated certain responsibilities to Officers or individuals. Appendix 4 highlights where the use of delegated powers have been utilised. In summary:</p> <ul style="list-style-type: none"> <li>• Cash-flow forecasting continues to be monitored through the Cash and Risk Management Strategy.</li> <li>• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).</li> <li>• Private Market commitments are made in-line with the Fund’s Investment Strategy, the Wales Pension Partnership, and, for Local and Impact opportunities, recommendation from Mercer, the Fund’s Investment Consultant. Further details can be found in section 1.06 of this report.</li> </ul>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
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2.01	<p>The Head and Deputy of the Clwyd Pension Fund dedicate significant time to deliver and monitor the WPP Business Plan, which is not individually acknowledged in the Clwyd Pension Fund budget.</p>
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<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
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3.01	None.
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<b>4.00</b>	<b>RISK MANAGEMENT</b>
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4.01	<p>Appendix 5 provides the Dashboard and Risk Register which highlights current risks relating to investments and funding matters.</p>
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4.02	<p>There have been no changes to the risk levels since the last Committee meeting. The FRMG made the decision not to make any changes to the current Risk Register whilst the Investment Strategy Review remains ongoing and will reassess once the review has concluded. Three risks are currently behind target:</p> <ul style="list-style-type: none"> <li>• Risk no. 3: Investment targets are not achieved therefore materially reducing solvency / increasing contributions.</li> </ul>
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	<ul style="list-style-type: none"> <li>• Risk no. 4: Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions.</li> <li>• Risk no. 9: The Fund's Long Term Investment Strategy fails to deliver on its ambition and objectives as a Responsible Investor.</li> </ul> <p>Fund Officers, its Investment Consultants and Fund Actuary (Mercer), and Governance Advisors (Aon) continue to monitor these risks regularly.</p>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 – 2023/24 Business Plan  Appendix 2 – WPP JGC Draft Minutes 13 December 2023  Appendix 3 – WPP Responsible Investment Report Q4 2023  Appendix 4 – Actions taken under Officer Delegations  Appendix 5 – Risk Dashboard and Register – Investments and Funding</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>1.02 The full JGC agenda is available here:</p> <p><a href="https://democracy.carmarthenshire.gov.wales/ieListMeetings.aspx?Committeeld=234">https://democracy.carmarthenshire.gov.wales/ieListMeetings.aspx?Committeeld=234</a></p> <p><b>Contact Officer:</b> leuan Hughes, Graduate Investment Officer, Clwyd Pension Fund</p> <p><b>E-mail:</b> leuan.Hughes@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>Financial Reporting Council (FRC)</b> – an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants, and actuaries, and setting the UK’s Corporate Governance and Steward.</p> <p>(b) <b>Funding &amp; Risk Management Group (FRMG)</b> – 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.</p> <p>(c) <b>In House Investments</b> – 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>(d) <b>ISS – Investment Strategy Statement</b> – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.</p> <p>(e) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) <b>PERAG – Private Equity and Real Asset Group</b> – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions</p>

Finance Managers, who take specialist advice when required.  
Recommendations are agreed with the Fund's Investment Consultant and monitored by AP.

- (g) **SFDR – Sustainable Finance Disclosure Regulation** – is a set of rules aimed at promoting sustainability in the financial sector by requiring financial market participants to disclose how they integrate environmental, social, and governance (ESG) factors into their investment-decision processes and how they manage sustainability risks.
- (h) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from Mercer, the Fund Consultant.
- (i) **The Committee - Clwyd Pension Fund Committee** – the Flintshire County Council committee responsible for most decisions relating to the management of the Clwyd Pension Fund
- (j) **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.
- (k) **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.

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