

CLWYD PENSION FUND COMMITTEE

7 October 2020

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 7 October 2020.

PRESENT: Councillor Ted Palmer (Chairman)

Councillors: Ralph Small, Billy Mullin, Tim Roberts, Haydn Bateman

CO-OPTED MEMBERS: Councillor Andrew Rutherford (Other Scheme Employer Representative) and Mr Steve Hibbert (Scheme Member Representative).

ALSO PRESENT (AS OBSERVERS): Elaine Williams (Pension Board Scheme Member Representative). Steve Gadd (Pension Board Employer Representative)

APOLOGIES: Councillor Nigel Williams (Wrexham County Borough Council)

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

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Karen Williams (Pensions Administration Manager), Nick Buckland (Fund Investment Consultant – Mercer), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee), Paul Vaughan (Clwyd Fund Accountant).

Guest speakers presenting comprising: Simon Monkhouse (Audit Wales) and Michelle Phoenix (Audit Wales) – both left after item 5 (Clwyd Pension Fund Annual Report and Accounts).

The Chairman introduced himself, as this was his first meeting in his new role.

The Chairman introduced Cllr Roberts who has taken over from Cllr Davies-Cooke. He also welcomed back Cllr Mullin who has replaced Cllr Hughes.

The Committee agreed to record their thanks to Councillors Shotton, Hughes and Davies-Cooke for their contribution during their membership of the Committee.

He thanked Mr Hibbert and Cllr Rutherford for agreeing to being reconsidered for their roles and congratulated them on their reappointment.

The Chairman also praised the contribution of Councillor Huw Llewelyn Jones of Denbighshire County Council who sadly passed away in February after a long battle with illness. Cllr Jones was one of the longest serving members of the Committee being a much appreciated and valued member since July 2006. He added that he was extremely well respected by his fellow Committee members, the officers and advisers of the Fund and he would be sadly missed. The Committee observed a minute silence to remember Huw.

107. **DECLARATIONS OF INTEREST (including conflicts of interest)**

The Chairman declared that his daughter is an employee of Flintshire County Council, employed within the Pension Administration section and also a member of the Clwyd Pension Fund.

The Chairman also stated that his partner is also an employee of Flintshire County Council and a member of the Clwyd Pension Fund.

There were no other declarations of interest.

108. **APPOINTMENT OF VICE-CHAIR**

Cllr Mullin and Cllr Small nominated Cllr Bateman as Vice Chair. It was noted that the appointed Vice Chair would also be the Deputy of the Joint Governance Committee for the Wales Pension Partnership.

RESOLVED:

It was noted that the Chair and Vice Chair are appointed as Member and Deputy respectively of the Joint Governance Committee for the Wales Pension Partnership.

109. **MINUTES 11 FEBRUARY 2020**

The minutes of the meeting of the Committee held on 11 February 2020 were agreed.

RESOLVED:

The minutes of 11 February 2020 were received, approved and signed by the Chairman.

110. **CLWYD PENSION FUND ANNUAL REPORT AND ACCOUNTS 2019/20**

Mr Vaughan noted the following key points on this item of the agenda:

- The investment performance of the Fund is recovering as the Fund moves through 2020/21.
- The Fund has continued to work with WPP and will be further transitioning assets in 2021.
- The administration strategy had been updated to enable employers and members to receive information in an enhanced way.
- Following the impact of COVID-19, the Fund had continued to successfully deliver business as usual.

Mr Vaughan stated that the accounts had been signed by Mr Ferguson, as the Section 151 officer. Included in the report is an Emphasis of Matter, which relates specifically to uncertainties in the valuation of Pooled Property investments because of the impact of COVID-19. Another document required this year is the Letter of Representation, which requires the Committee to confirm to Audit Wales that all of the information contained in the financial statements is true, accurate and that it has been disclosed, as well as a letter of response which answers some questions in relation to audit queries.

Mr Monkhouse confirmed that since the circulation of the report, the fieldwork for the audit of the accounts had been completed. He thanked Mrs Fielder, Mr Vaughan and

the team for producing accounts and their ongoing assistance for the audit during this challenging time.

Audit Wales work on a basis of materiality limits, which is set to try identify and correct misstatements that might otherwise cause a user of the accounts into being misled. The materiality limit that was applied for this year's audit is c£17.8m. The audit was expected to be signed off by 13 October and electronic signatures are required from the Committee. Due to COVID-19 restrictions, Mr Monkhouse and the team have been working remotely and adopted new ways to work together such as weekly meetings, which had been a success.

In Appendix 3 of the report, there has been an adjustment of c£19.4m because the net assets were overstated by this amount.

Mr Everett noted the Annual Report was very comprehensive and assuring, and he thanked the team and advisers for the excellent work in developing the report in tough times.

Mr Ferguson thanked everyone for their participation and help and recommended the Annual Report and Accounts for approval.

RESOLVED:

- (a) The Committee approved the Clwyd Pension Fund Annual Report and Accounts 2019/20.
- (b) The Committee considered the Audit Report.
- (c) The Committee approved the Letter of Representation.
- (d) The Committee noted the Audit Enquiries letter and responses.

111. **MCCLLOUD UPDATE AND CONSULTATION RESPONSE**

Mrs Williams presented this report and explained that the McCloud remedy is an age discrimination case. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes had been discriminated against because the protections for older members did not apply to them. The impact of the McCloud remedy proposed will be significant for the administration team and employers as it could involve considering and rectifying approximately 12,000 member benefits in the Fund based on an initial count. Due to the significance of the work involved, the Fund had established a formal programme to ensure that the work in respect of the McCloud remedy was delivered in line with the agreed success criteria.

Mrs Williams referred to the McCloud consultation response, which was circulated to the Committee on 14 September, after it had been agreed by the Steering Group comprising of the Pension Board and the Committee Scheme Member Representative. Mrs Williams asked for any further comments on the consultation response and none were made.

Mrs Williams referred the Committee to the McCloud programme update in the Appendix to the report. She explained the team were also working on an employer questionnaire to distinguish how data had been provided over the years and what data

needs to be collected/verified in order to progress the McCloud remedy. One-to-one meetings would be held with each employer, to discuss the data requirements.

The Fund had been working with their pension administration software provider to ensure the appropriate software tools were available for data collection and input, and will be adapting the Fund's internal processes to meet the new McCloud requirements for scheme member benefit calculations.

RESOLVED:

- (a) The Committee considered the update.
- (b) The Committee approved the Clwyd Pension Fund draft consultation response.

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

Mr Harkin confirmed that the Fund has benefited from the risk management framework but also from the diversification of the asset portfolio. Since there was a lot of volatility between asset classes, there has been a strong rebound in particular in equities since March 2020 to now. Mr Harkin therefore emphasised the importance of diversification in a portfolio.

Mr Harkin noted from that a US equity investor would be in a positive position and would have made money in the year 2020. He also outlined that the UK government bond yields had fallen; however, there had been a small rise recently. The risks ahead are much magnified short and long term; long-term in particular because of COVID-19. The COVID-19 pandemic had meant that global Governments were stimulating economies and protecting jobs where they can. There were political risks that could impact markets for example; the US election is less than a month away. Tensions also remained between the US and China and Brexit still needed to be considered a factor despite everything else going on. Mr Harkin stressed that the Fund has coped very well considering all that has occurred this year.

Mr Buckland stated that the Fund has a current asset value at 31 August 2020 of c£2 billion whereas at 31 March 2020 this figure was c£1.8 billion. This was due to the fall in markets which drove a significant fall for the Fund in March but it was somewhat protected by the risk management framework. The total Fund valuation was now in a similar position to a year previous.

Mr Middleman commented on the funding level monitoring slide, and explained that the black line identified where the funding level was expected to be on the basis of the contribution plan agreed at the 2019 valuation whereas the blue line showed the actual estimated funding level. He explained that, in simple terms if the Fund is above the expected level, then Fund's performance is ahead of the plan with its strategies, and vice versa.

Mr Middleman highlighted that the Fund was trending in line with the plan at the end of August despite the drop to a funding level of 85% in March 2020 from the market impact of COVID-19. To the end of August, the funding level was 92%. Whilst current figures were not fully available, Mr Middleman estimated that the Fund was still on track.

Mr Middleman outlined that material uncertainty remained and this could impact on the financial position going forward. However, via the flightpath framework, the Fund has protections in place to limit any downside as much as possible to put the Fund in the best possible position to weather this uncertainty.

Mrs McWilliam observed the slide outlining monthly asset values showed that we are now in a similar position to December 2019, which showed that the Fund's investment growth had not been in achieved the agreed targets. However, from the funding level monitoring slide, the current funding level position (at 31 August 2020) appears to have met contribution plan expectations i.e. the black line. Mr Middleman explained that the change in funding position is not only about total investment returns, it also depends on contributions received and also inflation expectations. He highlighted that the period since the valuation date (from 31 March 2019) remains broadly on track over that period, considering all factors.

Mr Everett questioned whether there was emerging contingency planning thoughts for re-review of the strategy based on the impending risks, specifically for the US election impact and Brexit. Mr Harkin agreed that this may be appropriate, however he also noted that the Fund's tactical asset allocation portfolio which can be traded day-to-day could be used to reflect change in sentiment quickly if required. From a strategic perspective, Mr Harkin noted that there would be a need to discuss with officers and bring to the Committee if it was believed there was something in the strategy that would need to be reviewed. Mr Everett stated the need to be realistic on growth assumptions, at least for another year following the impact of COVID-19 and international relations due to politics.

RESOLVED:

- (a) The Committee considered the economic and market update, the investment performance of the Fund for the quarter ended 30 June 2020 and the update on the funding position.
- (b) The Committee considered the investment strategy and manager summary for the quarter ended 30 June 2020.

113. **POOLING INVESTMENTS IN WALES**

Mr Latham commented on two aspects of the Wales Pension Partnership (WPP); governance and investments. Mr Latham announced that there had been a lot of recent progress on the governance side, and there had been a number of policies produced (referred to in item 1.01). There was now a business plan for the WPP, a conflict of interest policy, training plan, risk policy and risk register.

Mr Latham raised the ongoing question of whether the WPP should have a scheme member representation, and he announced that this matter is going to be considered at the next Joint Governance Committee (JGC). The Committee discussed this and noted their strong support for this.

In respect of the investment side of the pool, Robeco had been appointed as Voting and Engagement Advisor for the WPP which was a key new appointment for the pool. Mr Hibbert noted that he had previously raised questions and concerns with Mrs Fielder regarding the Committee's ability to measure the activity of Robeco on the

Committee's behalf. She responded that there was training on this matter the previous day and Mrs Fielder had already raised this point with Robeco.

Given the importance of responsible investment and climate risk, a new Responsible Investment (RI) sub group has been agreed and will report to the OWG on how to implement report and measure progress with these policies. Mrs Fielder would be in the new RI sub group and therefore reporting to the OWG. Mrs Fielder was pleased with the creation of the new RI sub group and felt it advantageous that the Fund were represented on it. She noted that the group would be invited to all relevant meetings and Robeco client group sessions. The group had been tasked with looking at the current voting policy in place and Mr Latham followed this by stating that most other pools have a RI officer who is a specialist in this area. Despite Mrs Fielder having an extremely high level of RI knowledge, she did however have several other roles and responsibilities in the Fund as well.

Following approval at the June 2019 Committee meeting, £200 million of Fund assets have been transitioned from Stone Harbour multi asset credit funds to the WPP multi asset credit fund. It was also mentioned that Link and Russell would be attending the next Committee meeting and will discuss emerging markets equities. An original deadline was set as June 2020 within the work plan of the WPP for the emerging market equity sub fund. However, there is now a revised date of May 2021.

Mr Latham explained that a questionnaire was being prepared for constituent authorities with the intention of going to each Committee member. The questionnaire is aiming to gauge each authorities' views of the WPP, and to inform its future focus.

Cllr Bateman noted from the risk management item on page 330 that the WPP governance risk was categorised as significant in the Fund's risk register. He asked whether the Committee should have concerns on this. Mr Latham answered that the ongoing risk is high as the participating Funds are extremely reliant on third parties because of how the structure is set up. However, it also meant that the Funds are reliant on the performance of WPP's advisers i.e. Russell and Hymans. The risk is higher as the third party operator, Link, currently have some matters that are being investigated by the FCA, which has previously been reported.

Mrs Fielder reminded the Committee that the investments already made within WPP had been favourable for the Fund. In relation to global equity, the outperformance achieved by WPP compared to the Fund's previous management arrangements equated to circa £7 million.

Mr Rutherford strongly believed that as a Committee there was a need to continue to support the position that a scheme member representative should be on the WPP JGC given the proportion of assets being managed by WPP on behalf of scheme members. The Committee endorsed this view, as did Mr Everett and also Mrs McWilliam who spoke on behalf of the Clwyd Pension Fund Board

RESOLVED:

The Committee noted the report and update on implementation of Pooling Investments in Wales.

The Committee agreed to recommend that there should be a scheme member representative position on the WPP JGC.

114. **GOVERNANCE UPDATE**

Mr Latham did a short update including highlighting the small changes to the risk register as well as the changes to the timeline of the business plan around The Pension's Regulator Single Modular Code. Mrs Fielder and Mr Latham thanked all the members who attended the Committee training.

RESOLVED:

- (a) The Committee noted the update on governance related matters.
- (b) The Committee approved the changes to the timelines for governance tasks in the business plan.
- (c) The Committee approved the updates to the risk register.

115. **PENSION ADMINISTRATION / COMMUNICATIONS UPDATE**

Mrs Williams emphasised the workload that the administration team had including business as usual, the McCloud remedy, the Goodwin case, the 95k cap and more. She said that with all the regulatory changes, there was a risk that their systems might not be updated in time for a change, and therefore the team would have to perform individual calculations on a case-by-case basis.

She also highlighted that the administration team are also responsible for the content on the Fund's website, which can be challenging given the complexities in uploading content and the lack of website experience within the team. A new dedicated website officer role had been approved using the urgency delegation as well as a further lead role officer relating to payroll which would allow the team leader to focus on their duties and responsibilities, as well as introducing better internal controls.

Mrs Williams highlighted the success that the team have had with supporting each other's wellbeing following the challenges from working from home and additional workloads. All of the team had regular wellbeing virtual meetings to ensure that all were managing. The feedback from most staff was that working from home was working well. Mr Everett highlighted that they will likely need to continue to work mainly from home for some time. Social contact is part of the Council's management plan for all teams

RESOLVED:

- (a) The Committee noted the update on administration and communication matters for the Clwyd Pension Fund.
- (b) The Committee approved the extension of timescales in relation to a number of actions within the business plan.

116. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder noted that within the Business Plan there was an amended timeline in respect to the creation of the cash-flow policy, which the Committee approved.

As part of the transition, the Fund transitioned all of the assets to bring the asset classes in line with the new strategy. The Fund had transitioned the BlackRock passive

global equity fund to the new BlackRock ESG passive global equity fund as agreed by the Committee. Until the WPP were set up to take all of the emerging market assets, the Fund had transitioned some of the assets to the BlackRock emerging market passive fund, as it is materially cheaper than an active manager. As a result of the transition, all asset classes except private market allocations were in line with the new strategy.

Cllr Bateman queried the cashflow position on page 462 and asked what caused the drop from £35m to £20m. Mrs Fielder confirmed that as part of the transition, the Fund utilised some cash to assist with the timing of the transition. If the Fund had continued with the initial redemptions from managers, they would have risked being out of the market. Therefore, the Fund used an additional c£9.3 million of in-house cash to manage the transition effectively.

RESOLVED:

- (a) The Committee considered the update for delegated responsibilities.
- (b) The Committee approved the extension of the timescales in relation to a number of actions within the business plan.

117. **FUNDING AND FLIGHTPATH UPDATE**

This item of the agenda was for noting and Mr Middleman added that the Fund was back to being inflation hedged at 40% rather than previously at 20% from the last Committee.

RESOLVED:

- (a) The Committee noted the update on the funding and hedging position for the Fund and the progress made on various elements of the Risk Management Framework.
- (b) The Committee noted the impact of the equity protection strategy.
- (c) The Committee noted the impact of the currency hedging strategy.

The Chairman thanked everyone for their attendance and updates at the Committee meeting. The next formal Committee meeting is on 25th November 2020. The meeting finished at 11am.

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Chairman