

**CLWYD PENSION FUND COMMITTEE**  
**10 February 2021**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 10 February 2021.

**PRESENT: Councillor Ted Palmer (Chairman)**

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

**CO-OPTED MEMBERS:** Councillor Nigel Williams (Wrexham County Borough Council), Councillor Julian Thompson-Hill (Denbighshire County Council), Mr Steve Hibbert (Scheme Member Representative) and Councillor Andy Rutherford (Other Scheme Employer Representative).

**ALSO PRESENT (AS OBSERVERS):** Elaine Williams (PFB Scheme Member Representative) and Phil Pumford (PFB Scheme Member Representative).

**APOLOGIES:** None

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Head of Clwyd Pension Fund ), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Adviser – Aon Hewitt), 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).

The Chairman introduced Cllr Thompson-Hill to the Committee who had already had some previous involvement with the Fund as a substitute Member. He looked forward to his positive contribution to the Committee.

The Chairman also recognised the contribution to the Committee of Cllr Kevin Hughes who had sadly passed away in January. The Chairman added that Kevin was a very recent member of the Committee and carried out his duties with passion and commitment. He made a significant contribution throughout his time on the Committee and was extremely well respected by everyone. The Committee observed a minute's silence to remember Kevin.

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

Cllr Thompson-Hill mentioned that he was due to return his conflict of interest form and would do so in due course.

There were no new declarations of interest.

126. **MINUTES 25 NOVEMBER 2020**

Cllr Bateman queried whether the WPP emerging market equity sub-fund had been launched yet. Mr Latham confirmed there were further delays therefore the launch date was now expected to be September 2021. This would be covered later on the agenda.

Mr Hibbert made the point that not having regard to factors such as climate change in investing the Fund's assets, could be detrimental as ESG issues can negatively impact the performance of investments. Therefore in his view, for the Committee to carry out their fiduciary duty, it is important that such factors are considered when investing the Fund's assets.

**RESOLVED:**

The minutes of 25 November 2020 were received, approved and signed by the Chairman.

127. **GOVERNANCE UPDATE**

Mr Latham updated the Committee on the latest Governance issues for the Fund including a slight change to some timescales in the business plan. He noted that the Fund carried out a compliance check against The Pensions Regulator's requirements, which Mrs Fielder and Mrs Williams had recently reviewed with oversight from the Board. Where the Fund were not compliant, there were actions where appropriate.

In terms of governance related risks, those that were within the direct control of the Fund were relatively low. There were some high-risk areas for the Fund, associated with external factors such as regulatory changes and the impact of the COVID-19 outbreak.

Mr Latham wished to gauge the view of the Committee in respect of the timing of future training days for the Committee. The Committee agreed to the arranging of the training days to commence as soon as possible and therefore Mrs McWilliam confirmed she would be in touch with some potential dates for these sessions.

Cllr Bateman asked whether the Fund have made any progress on recruiting a web specialist. Mrs Williams confirmed that a specialist had been appointed internally from another Council department where they had been part of the Graduate Trainee programme. She emphasised the positive appointment and looked forward to the experience they would bring to the team.

**RESOLVED:**

- (a) The Committee noted the update.

- (b) The Committee approved the changes to the timelines for governance tasks in the business plan as outlined in paragraph 1.01.
- (c) The Committee agreed the next training sessions should be arranged relating to specific subject matters as referred to in paragraph 1.08.

#### 128. **PENSIONS ADMINISTRATION / COMMUNICATIONS UPDATE**

Mrs Williams noted the following key points from her report:

- The team had successfully completed most areas of work against the business plan.
- Some items on the business plan remained incomplete given the delays in guidance and regulation, and therefore these had been delayed.
- The team had begun progressing the 2021/2022 business plan.
- The GMP reconciliation exercise was due to finish at the end of February 2021.
- Progress had been made with the McCloud employer engagement sessions.
- With regards to the key performance indicators, there was a decrease in outstanding cases to 5,000 and then had been over 10,000 about 2 years ago). This was extremely positive for the Fund and reflected the hard work and commitment from the team as well as the support from the Committee acknowledging the need for resource requirements to facilitate this.
- Following the approval of the business case for a Lead Website and Officer and a Lead Payroll Officer appointments have been made to both positions.
- The team has been affected by non-COVID related illness and family bereavements recently. However morale still remains high and they have continued to work well and there has not been an impact on work rates.

Mr Everett complimented the team for their resilience during these challenging times and for remaining positive and engaged in spite of this.

#### **RESOLVED:**

- (a) The Committee noted the update.
- (b) The Committee approved the extension of the timescales in relation to a number of actions within the Business Plan as outlined in paragraph 1.01.

#### 129. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder emphasised the strong position that the Fund was currently in and noted the following key points:

- The ongoing work surrounding Responsible Investment (“RI”) had taken a significant amount of time from Mrs Fielder on top of her usual duties.

- Following on from the presentation provided to the Committee in November, it is intended that the team will report to Committee in June with a road map outlining the Fund's intentions in tackling climate risk.
- Mrs Fielder recommended that the Fund become an affiliate member of Pensions for Purpose, which was a collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment. In addition to the work the Fund is developing to tackle climate risk, this would aid the Fund's intention to investing, where possible, in line with the sustainable development goals. The Good Economy is a social advisory firm, specialising in impact measurement and management and Mrs Fielder also been involved in some of their working groups.
- Mrs Fielder has also been involved in several meetings with members of the Welsh Government Energy Services and has involved external managers of the Fund who may be able to give guidance and assistance on some of the individual projects.
- The Scheme Advisory Board ("SAB") has created a new responsible investment advisor group consisting of a selection of Fund Managers, Consultants and representatives from Pools and key LGPS administering authority groups. Mrs Fielder was appointed as the representative for the Wales LGPS funds. Mr Buckland has also been appointed on behalf of Mercer.
- The Fund has been involved with the Impact Institute which was launched in 2019 with a mission to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally. They have developed four guiding principles for pension schemes and it is recommended that the Fund adopt these principles as they are aligned to the Fund's RI Policy.
- In relation to Delegated Responsibilities, the Fund remains cash flow positive. Mercer and the Fund have worked together and £15 million was committed to a Private Equity manager, Livingbridge.

Mr Latham added that he had been invited to a meeting with Wrexham County Borough Council regarding a resolution on divesting from fossil fuels and investing in local investments. Cllr Williams was aware of this.

In regards to the Welsh Government Energy Services, Mr Everett asked what the Fund could expect in terms of timeframes. Mrs Fielder commented that she was uncertain at this stage. She noted that the Fund is not equipped nor has the expertise to analyse these individual projects themselves given that work is usually completed through an investment manager. Mrs Fielder commented that some of the Fund's existing managers could facilitate this but the Fund would also need to work with the WPP in this regard.

Cllr Bateman queried whether there was any mention of nuclear power on Anglesey in the discussions. Mrs Fielder responded that she cannot discuss any details of individual projects.

The Chairman noted the excellent involvement of the Fund at a national level on the various RI initiatives, which is clearly going to benefit the Fund being at the forefront of the latest thinking.

**RESOLVED:**

- (a) The Committee considered and noted the update for delegated responsibilities.
- (b) The Committee approved the updated cash management wording for inclusion in the Investment Strategy Statement as outlined in paragraph 1.01.
- (c) The Committee approved becoming an affiliate member of Pensions for Purpose as outlined in paragraph 1.05 and adopted the Impact Institute objectives as outlined in paragraph 1.06.

130. **POOLING INVESTMENTS IN WALES**

Mr Latham gave the Committee an update on the work undertaken by the Wales Pension Partnership (“WPP”) with pooling investments in Wales and made the following key points:

- He confirmed that the JGC had now agreed to have a co-opted Scheme Member Representative on the Committee.
- The WPP have progressed and reviewed new policies including a training policy and the adoption of the Robeco voting policy.
- A new risk sub-group had been created and is now embedded into the governance of the WPP.
- Work is continuing on the WPP private markets, risk and RI sub groups. These are complex areas and have been more time consuming than originally anticipated for Mrs Fielder and Mr Latham who are involved with both these groups.
- In terms of investments for the WPP, Global Equity Investments and Multi-Asset Credit investments were now managed by the WPP and performing as expected, although both portfolios are relatively new.
- There were delays in the launch of the Emerging Markets sub-fund and a September 2021 launch date is now expected. This was mainly due to the desire to include the carbon reduction overlay, which required greater clarity. Mr Latham emphasised the benefits of the emerging markets sub fund is carbon reduction, lower fees and a better risk adjusted return outcome.

Mr Hibbert asked whether the JGC required an interview in the selection process of the Scheme Member Representative. Mr Latham said that the process surrounding how the appointment should be decided would be discussed at the

next JGC meeting. Mr Hibbert believed that it should be the member representatives that decide who the representative should be. Cllr Rutherford supported Mr Hibbert's view. Mr Everett also supported this given there would have already been appointment interviews at fund level for Board members

The Committee agreed that the Chairman should raise this matter with the JGC at the next meeting.

On page 127, Cllr Bateman highlighted that the WPP risk register gave the impression that there was more thumbs down than thumbs up. Mr Latham highlighted to the Committee that there were a lot of thumbs across which meant that WPP were happy but there are still some areas for improvement. Any thumbs down from the chart were around risks with external suppliers.

**RESOLVED:**

- (a) The Committee noted and discussed the report.
- (b) The Committee approved the changes to the Inter-Authority Agreement (IAA) to allow for the inclusion of a Scheme Member Representative on the JGC, subject to agreement of the proposed changes to the IAA wording by the Head of Clwyd Pension Fund and requesting the Chairman to raise the wish for a Pension Board led appointment process at the next JGC.

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

Mr Harkin provided an economic and market update to 31 December 2020 to the Committee and summarised the following points:

- The risk-on sentiment continued to drive positive asset returns.
- Central Banks had stimulated the economy because of the fluctuating impact of the COVID-19 outbreak.

Mr Buckland confirmed that at 31 December 2020 the market value of the Fund had increased by c£120 million in the year to a total of £2.1 billion, which was an all-time high. This increase was due to the impact of asset price inflation that Mr Harkin had discussed. The Fund's performance over 3 months, 12 months and 3 years was +6.2%, +6.4% and +5.4% p.a. respectively.

Mr Buckland highlighted the three different targets/benchmarks from paragraph 1.04 on page 147. The actuarial target was the target level of long-term return assumed by the Actuary. The strategic target was the potential return for the Fund's investment strategy, and the total benchmark was the composite of the targets of each of the underlying fund managers. The Fund has outperformed

the actuarial target and the strategic target over Q4 2020 and 1 year. There was a slight underperformance on the total benchmark.

From an asset class perspective, the Fund were now broadly in line with all strategic targets. However, private market asset performance lagged listed markets and were below the benchmark. Mr Buckland reassured the Committee that he had no concerns on this matter.

Cllr Bateman thanked the team for their work and the comprehensive report for this item of the agenda.

Mrs McWilliam asked whether the target of +5.4% over the quarter was the benchmark or strategic target. Mr Buckland confirmed it was the benchmark.

Feedback was welcomed and encouraged by Mr Buckland on the monitoring report as it was in a new reporting style.

Mr Everett asked what the advice and sense of confidence was on the short-term forecast for Q1 2021 and Q2 2021. Mr Harkin confirmed that the assumptions for the upcoming year were relatively positive for risk assets. Equities were expected to return relatively strongly given the global COVID-19 vaccine roll out. Investors were continually trying to look ahead in terms of the COVID-19 position. However, he cautioned that the market remained extremely volatile and as seen in recent events nervousness can affect the markets.

Cllr Bateman questioned how negative interest rates would affect the Fund. Mr Harkin replied that the UK is in a new economic position. He said that currently global bond yields are very low given the unemployment figures, inflation rate and the post Brexit impact.

### **RESOLVED:**

The Committee noted the performance of the Fund over periods to the end of December 2020 along with the Economic and Market update.

## 132. **FUNDING, FLIGHT-PATH AND RISK MANAGEMENT FRAMEWORK**

Mr Middleman briefed the Committee on the following points:

- At 31 December 2020, the Fund had a funding level of 96%, which was 4% ahead of what was expected at the last actuarial valuation.
- He raised the issue regarding uncertainty in the market as per the previous agenda item, which could affect whether the Fund would meet the long-term expected returns in the funding plan. For example, a 0.25% p.a. reduction in the expected long-term return

would reduce the funding level by 4% back to 92%. This emphasised the sensitivity to returns and the potential impact on the employer contributions.

- The Fund was in a good position given the relevant risk controls within the flightpath to give more predictability of outcome. Whilst this does not remove all risks, it provides a good level of protection.

Mrs McWilliam asked whether anything would happen if the Fund reached a funding level of 100%. Mr Middleman said that in that scenario the Fund would need to review their strategy and consider “banking” some of the gains by reducing risk further through the investment strategy e.g. a reduction in growth assets. This will depend on a number of factors, which will be discussed at the Funding and Risk Management Group and implemented as per the delegations. The outcome of that discussion could be different if the funding level improved to 110% when compared to, say, a funding level of 101%.

Mr Latham stated that the Fund managed to achieve targets at a relatively low risk and asked Mr Middleman whether this was a fair comment to make. Mr Middleman confirmed and said that the Fund’s strategy is more risk aware than many LGPS funds. The crucial element to the flightpath framework was to monitor the risk in a more structured way and to stabilise and achieve the Fund’s target. Running the Fund at a lower risk had proven successful, however, to protect against downside there will be some potential upside given up but in Mr Middleman’s view, the Fund’s approach is the correct one in the long term.

Mr Everett asked for the latest funding level figures. Mr Middleman explained that the funding level was very similar to 31 December 2020 i.e. 96% funded. This will be reviewed on a monthly basis as normal.

**RESOLVED:**

The Committee noted the estimated funding position for the Fund along with the progress made on the various elements of the Risk Management Framework.

The Chairman thanked everyone for their attendance and updates at the Committee meeting. The next formal Committee meeting was on 23 March 2021. The meeting finished at 11am.

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**Chairman**