CLWYD PENSION FUND COMMITTEE
10 NOVEMBER 2021

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

PRESENT: Councillor Haydn Bateman (Vice-Chair in the Chair)
Councillors: Dave Hughes, Tim Roberts, Ralph Small, Ted Palmer - joined after Item 11

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

ALSO PRESENT (AS OBSERVERS): Phil Pumford (PFB Scheme Member Representative)

APOLOGIES: Councillor Nigel Williams (Wrexham County Borough Council) and Councillor Ted Palmer who joined after Item 11

Advisory Panel comprising: Philip Latham (Head of Clwyd Pension Fund), Karen McWilliam (Independent Adviser – Aon), Gary Ferguson (Corporate Finance Manager), Sharon Carney (Corporate Manager, People and Organisational Development) – left after Item 4, Paul Middleman (Fund Actuary – Mercer), Kieran Harkin (Fund Investment Consultant – Mercer)

Officers/Advisers comprising: Neal Cockerton (Chief Executive), Debbie Fielder (Deputy Head, Clwyd Fund), Karen Williams (Pensions Administration Manager) – left after item 10, Nick Buckland (Investment Adviser – Mercer), Paul Vaughan (Clwyd Fund Accountant), , Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee)

Guest speakers presenting comprising: Michelle Phoenix (Audit Wales) – left after Item 4, Hill Gaston (Mercer) – joined for Item 11 only, Mary Lambe (Aon) – joined for Item 13 only, Princess Okoro (Aon) – joined for Item 13 only

The Chairman welcomed Mr Cockerton as Flintshire County Council's new Chief Executive. Mr Cockerton confirmed that he would not take on the fund administrator role in the same way as Mr Everett previously did. Nevertheless, Mr Cockerton had a keen interest in the Fund and the way it is managed. He introduced himself, noted that Mrs Carney was the Council's Corporate Manager for Human Resources, and would attend future meetings in his absence in addition to Gary Ferguson continuing to attend in his role as Section 151 Officer. He noted that Mrs Carney had a lot experience from her previous employment role, which was extremely useful for the Fund. He also confirmed that Mr Owens had been asked to undertake a review of constitutional matters for the Fund.

22. DECLARATIONS OF INTEREST (including conflicts of interest)

Mrs McWilliam and Mr Buckland declared an interest in relation to Item 8 on the agenda as Aon and Mercer are interested in participating in the next stage of the ongoing Private Markets procurement for the Wales Pension Partnership ("WPP").

There were no other declarations of interest.

23. MINUTES 1 SEPTEMBER 2021

On page 12, Mr Hibbert clarified his view relating to the scheme member representative on the Joint Governance Committee ("JGC"). He believed it was discriminatory because the scheme member representative would be subject to a recruitment process with a job description, person specification, a time limitation on membership and not being able to vote, which no other member of the Joint Governance Committee ("JGC") would be subject to.

The minutes of the meeting of the Committee held on 1 September 2021 were revised accordingly.

RESOLVED:

The minutes of 1 September 2021 were received, approved and signed by the Chairman.

24. CLWYD PENSION FUND ANNUAL REPORT 2020/21

Mr Vaughan confirmed that although the audit of the Fund's Annual Report 2020/21 was well underway it was not yet complete. The statutory deadline for publishing the Annual Report was 1st December 2021. In order to meet this deadline, it would be necessary to delegate approval of the report to the Chair of the Committee, the Head of the Clwyd Pension Fund and the Treasurer to the Fund (Flintshire County Council Section 151 Officer). Should any significant issues arise from the remaining audit work, this would be reported to an urgent meeting of the Committee prior to approval.

He confirmed that the only change in the Annual Report since the previous meeting, other than any arising from the audit, was in relation to noting the Welsh Government's jurisdiction on matters relating to the exit cap.

The Fund was in discussion with Audit Wales to consider the Annual Report timetable for 2021/22 to try as far as possible to avoid the need for delegated approval.

Mr Ferguson thanked the team for the work done so far on the Annual Report and noted the requirement for delegation to approve it.

Mrs Phoenix reported that the level of materiality applied during the audit was c£22.2m, based on the value of the assets in the draft accounts. She confirmed that the Audit Wales team remained independent from the Fund. The audit had not found any significant matters or identified any errors that needed to be reported to the Committee. Minor amendments had been agreed with the Fund but none which affected the draft Fund Account or Net Asset Statement. She confirmed that she was comfortable with the arrangements for the approval of the Annual Report.

RESOLVED:

(a) The Committee noted the update of progress on the Fund's 2020/21 Annual Report; and

(b) The Committee approved the delegation of the approval of the Annual Report (including the accounts); subject to no significant changes being made, to the Chair of the Pension Fund Committee, the Flintshire County Council Section 151 Officer (Treasurer to the Fund) and the Head of Clwyd Pension Fund.

25. GOVERNANCE UPDATE

Mr Latham noted that some items had been revised in the business plan and noted the following key points on this update:

- The Fund had not yet received the good governance review from the Department of Levelling up, Housing and Communities ("DLUHC").
- Paragraph 1.06 explained the outcome of the 2016 cost management process. However, there was an ongoing review by SAB in regards to the third ill health tier and potentially the consideration of contributions for lower paid members. Details surrounding the cost management consultation were outlined in paragraph 1.07 and the government responded to this on 4 October.
- A survey on the effectiveness of governance was also due to be shared for all Committee members to complete.
- In regards to paragraph 1.02, in order to facilitate succession planning and as a result of workload issues within the Finance Section, Mr Latham recommended that the Fund recruit a trainee accountant to a new post in the Fund's Finance Section.

In response to a question about the salary level for the new post, Mr Latham explained that the estimate was based on recent similar recruitment at Flintshire County Council.

When asked how the Fund could be sure that the trainee accountant would stay employed at the Fund once they become qualified, Mr Latham said that there was no certainty but hoped that the specific exposure to the Fund during the training would engender loyalty.

RESOLVED:

(a) The Committee considered the update;

(b) The Committee agreed the changes to the business plan timings for items G1 and G5 as outlined in paragraph 1.01, both of which relate to delays at a national level; and

(c) The Committee agreed to the change to the Finance Section including a trainee fund accountant at an annual cost of £38k to £46k.

26. ADMINISTRATION AND COMMUNICATIONS UPDATE

Mrs Williams noted the following significant points regarding the administration and communications update:

- Annual pension regulator scores, which measure common and scheme specific data that the Fund hold against specific tolerances, had been confirmed. The common data score was 98% (previously this was 92%). The scheme specific data measure score was 97% (previously 68% when this was first introduced). As clearly identified, there has been excellent improvement in those areas. However, improvements going forward may plateau given the impact of business as usual and the nature of the remaining scores sometimes making them less important to update, but the scores are expected to remain high.
- There continues to be long delays in Prudential's services for members who have requested money to be released. However, there was a slight improvement and Mrs Williams is monitoring these issues regularly.
- A new service was recently introduced in relation to the Annual Allowance and Life Time Allowance tax charges where Mercer hosted a scheme member webinar on this topic and members found the session extremely useful. The Fund is happy with the content and format of the session. It is hoped that members' understanding will improve and expectations of the Fund to provide advice/guidance will reduce.
- Resource implications were outlined in paragraph 2.01, in particular the vacancies within the administration team. The Fund were working a further round of trying to recruit within the operations team but unfortunately, no positions were filled in the McCloud team.
- These vacancies, alongside the ongoing training and annual leave, would have an impact on KPIs and therefore, a dip in KPIs in the next quarter may be expected.

RESOLVED:

The Committee considered and noted the update.

27. INVESTMENT AND FUNDING UPDATE

Mrs Fielder noted the following key points on the investment and funding update:

- The Fund had their first meeting with unitary authorities regarding the interim actuarial valuation review, which had positive feedback. The Fund will continue to have regular meetings with them as well as other employers throughout the 2022 actuarial valuation process.
- There were no changes to the risk register but the Fund were expecting changes going forward as they work through the actuarial valuation.
- Mrs Fielder was honoured to participate in a panel at COP26 on 3 November. The panel discussed "adopting a transitional mind-set for the future". Mrs Fielder confirmed this was well received.
- The Fund were shortlisted for two Pensions for Purpose Awards; the Impact Investing Adopter Award and the Impact Investing Social Award. Officers were extremely busy working on the private market asset

allocation. Mercer had also made several recommendations for the Fund, including 11 possible investments totalling commitments worth c£140 million.

- In October, the Fund transitioned some of their emerging markets asset allocations into the WPP. The Fund now have 32% of their assets pooled with the WPP.

The Committee congratulated Mrs Fielder for her participation at COP26.

RESOLVED:

The Committee considered and noted the update.

28. ASSET POOLING IN WALES

This item of the agenda was for noting and Mr Latham added that the WPP produced their 2020/21 annual report, which identified the achievements in the year by the WPP.

Mr Latham confirmed that at the next JGC, there would be an agenda item on whether or not to extend the contract for the current operator for a further 2 years.

He also added that, as previously mentioned by Mrs Fielder, 32% of the Fund's assets were pooled with the WPP.

RESOLVED:

The Committee considered and noted the update in particular the JGC agenda and WPP Annual Report.

29. ECONOMIC AND MARKET UPDATE AND INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr Harkin confirmed that the Fund asset value at the end of September was c£2.4billion and the Fund performed well against all benchmarks. The underlying asset classes in the Fund, which drove the strong performance, were the equity allocation and the tactical allocation portfolio. Given the Fund's positive position, there were no issues to report but the portfolio would remain under regular review.

RESOLVED:

The Committee considered and noted the update.

30. FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK UPDATE

Mr Middleman noted that the funding position had slightly improved since the end of September due to the strong performance of the assets. The main concern was regarding inflation head winds, which may have an adverse effect on funding position, but overall the Fund were still in a positive position and ahead of its target due to its strong performance.

Mr Hibbert highlighted the discussion at a previous meeting that should the Fund hit the 110% funding level trigger, then there would be engagement with the Committee. Mr Middleman noted this and confirmed that the Fund had not hit the 110% funding level position yet.

The Chairman asked for clarification on the term head winds. Mr Middleman confirmed this meant increased inflation risk. He said that as reported nationally, there had been spikes in UK inflation over the past few months given various concerns including supply issues, energy prices etc. It was unclear whether this was going to be short or long term. If inflation were to spike, this would mean an increase in value of the Fund's liabilities (as pensions are linked to CPI inflation), unless the assets performed even more strongly to achieve the same return in excess of inflation, in which case there would be a deterioration in the position. Mr Middleman confirmed that the Fund had an element of protection against inflation within the flightpath strategy.

RESOLVED:

The Committee noted the Funding, Flightpath and Risk Management Framework update.

31. RESPONSIBLE INVESTMENT ROADMAP

Mr Latham started by highlighting the significance of the decisions in this report and particularly the key proposal that the Fund target net zero carbon emissions by 2045 (rather than 2050) with a 50% total portfolio carbon reduction by 2030.

Mr Latham reminded the Committee that the Fund's key overriding objectives were to ensure there are sufficient funds to pay benefits and to assist employers in making these costs affordable. This is done by focussing on maximising investment returns, as it is the Fund's fiduciary duty to do so. He explained, however that this could be done responsibly, without compromising that financial return, by taking into account ESG factors and other financial issues such as inflation and interest rate risk.

Mr Latham added that the Fund would need to update the Investment Strategy Statement ('ISS') to reflect the commitments to a net zero ambition and consult with employers regarding the proposed updates as per the regulations. Subject to agreement of the proposals in the report, the Fund would launch the employer consultation at the AJCM in November. He believed that the Fund should be looking to invest where there was a clear transition path away from carbon intensive assets and it should also be looking to manage exposure to assets that may be negatively impacted or lose value due to the low carbon transition.

The Fund were also in discussion with the WPP over the creation of an active sustainable global equity sub-fund, but that this may take another 12 months to create.

Mr Latham introduced Mr Gaston who would take the Committee through the analysis.

Mr Gaston then went through a presentation explaining the proposals, highlighting the following key points:

- The purpose of the analysis was to help set out the Fund's net zero targets and to take a deeper dive into the listed equity portfolio to set more granular interim targets to help reduce carbon intensity.
- It is being proposed that the Fund support limiting warming to well below 2°C, in line with the Paris Agreement. Physical damages from warming, particularly under 3°C and 4°C degree scenarios, could be expected to undermine the Fund's investment returns.
- As an LGPS, the Fund was under scrutiny given the high level of transparency; wider stakeholders and members will want to know what the Fund is doing to mitigate climate risk.
- Technology (such as the falling cost of renewable technologies) and market developments (such as markets rewarding sustainable companies over fossil fuel based companies) meant that low carbon transition risks and opportunities were relevant for the Fund today and into the future.
- Page 244 outlined Mercer's Analytics for Climate Transition (ACT) framework. The analysis showed the split of the portfolio between the grey (carbon intensive, low transition capacity companies), the green (low intensity and high transition capacity companies) and the in between (companies with a range of carbon intensities and transition potential).
- Step 3 on page 244 showed the framework could be used to set decarbonisation targets to 2025 and 2030. Step 4 would involve setting a transition plan for implementation.
- Page 245 covered a few of the key metrics underlying the analysis. In terms of setting targets, it is proposed that the Fund should focus on the absolute emission metric at the bottom of this slide.
- Page 246 explained the definitions for scope 1, 2 and 3 emissions. Scope 3 emissions were not currently included in target setting due to data quality and availability issues.

The summary of Fund proposals for consideration were on page 237 and 238. The main recommendations were that the Fund targets net zero by 2045 and adopts a total Fund target of 50% carbon intensity reduction by 2030. Mr Gaston listed the remaining recommendations from page 237 and 238. For the stewardship targets, Mr Gaston explained that it is proposed that by 2025, either 70% of the Fund's financed emissions would be covered by engagement from Robeco or include companies that are already aligned with a net zero pathway. This includes a further target to cover 90% of the Fund's total financed emissions by 2030.

Mr Hibbert reminded Mr Gaston that at the previous meeting he had asked if a cash value on the figures set out in the report could be included, in addition to a percentage. He believed this would be easier to identify the capital being invested and shifted away from carbon intensive companies. Mr Gaston confirmed that he would be able to do this going forward.

Mr Gaston highlighted that:

- page 249 clarified that 20% of the Fund's holdings have been analysed for this work and this figure would increase over time.
- page 250 illustrated that the Fund's current equity funds were responsible for c46k tons of CO_2e emissions and that a 2045 net zero target would be based on these scope 1 and 2 emissions.
- As per the chart on the left of page 252, and according to the grey/in-between/green analysis, 94% of the Fund's listed equities are in the in-between assets category and, 3% of the Fund's listed equities are in explicitly green companies (for example, Tesla). 2.6% are in grey companies, which are very carbon intensive and dominated by emerging market holdings. The chart on the right of this page outlined the actual contribution to carbon intensity of these holdings.
- page 254 identified the three different decarbonisation pathways. Responding to a question from Mrs McWilliam, Mr Gaston confirmed that the emission pathway represented by the green line was for listed equities and the emissions pathway represented by the purple line was equivalent to the total Fund decarbonisation target.

There were a number of key recommendations for the listed equity portfolio. It was recommended to adopt a target consistent with reducing emissions by 36% by 2025 and 68% by 2030. In addition, there was a proposed target to reduce oil and gas exposures by 70% by 2025 and 90% by 2030. There were stewardship targets already described above. Lastly, it was proposed to target having 30% of the listed equity portfolio in green and sustainable companies by 2030.

Mrs McWilliam commented that the Fund was the first in Wales to set decarbonisation targets at this level of detail as far as she was aware. However, for anything that is within the WPP asset allocations, the Fund relies on the WPP and Robeco to deliver this strategy for the Fund. This was a risk listed on the risk register, given that the Fund may not be able to achieve certain aims because the WPP may be unable to deliver everything needed. Mrs McWilliam hoped the other Funds in Wales would follow Clwyd Pension Fund's lead by adopting their own targets for decarbonisation. Mr Latham said that the Fund was sharing their thoughts and beliefs with the WPP. As a result, the progress of the sustainable active global equity sub fund with the WPP was underway. Mrs Fielder confirmed that the Fund had analysed the engagement undertaken by Robeco on their behalf and were invited to regular meetings and updates with them in regards to responsible investing. The Fund will continue to be vocal on this matter going forward.

Mr Gaston summarised the recommendations on page 257 and 258. If the Fund were engaging with grey companies and there was no improvement over time, he believed there was the potential, in collaboration with WPP and Robeco, to introduce selective divestment. Mr Gaston emphasised the importance of communicating any agreed recommendations to the WPP and to investment managers.

Mr Latham added that some stakeholders may want to achieve net zero by, say, 2030 (rather than 2045) and asked what the impact of this would be. Mr

Gaston confirmed that, taking into account the investment universe, a net zero target much earlier than 2045 would be unrealistic if the Fund still wished to maintain a diversified investment strategy. If the Fund did not maintain a diversified strategy and adopted an extremely aggressive net zero target, it would likely compromise its ability to achieve the return objectives. Mr Middleman agreed and added that if the Fund did not achieve the investment return objectives, there would be an increase in contributions for employers (all other things equal). Therefore, it is crucial to do this in an ordered and measured way with ambitious targets but also ensuring that this would not affect the financial health of the Fund.

Mr Hibbert understood Mr Middleman and Mr Gaston's point but asked whether it was important to keep the c£22 million of fossil fuel exposure in the listed equity portfolio (the overall Fund was worth c£2 billion) in order to maintain a diverse asset class portfolio. Mr Gaston said that the grey companies, which were carbon intensive companies, were not exclusively fossil fuel companies. He said that the Fund's approach has been to engage with those grey companies and push them to transition to sustainable, low carbon business models. As part of the ISS, the Fund are open to selective divestment so in 5 to 10 years' time the Fund may have minimal exposure to grey companies. Mr Latham confirmed that the Fund expected to invest in the WPP global sustainable equity fund, which was expected to have low exposure to fossil fuels and grey companies.

Mr Hibbert commented that it was crucial here to put in the monetary value so the shift in capital is easily identified. Mr Buckland confirmed this would be done for future analysis.

Mr Latham discussed the transition of emerging market equity and added that the Fund was in the process of transitioning this to the WPP. The WPP emerging market portfolio was 25% more carbon efficient than the benchmark. Further details would be confirmed on this following the analysis next year.

Mr Gaston recapped the recommendations and the Committee were happy with the recommendations, noting that the targets would be expanded to include monetary values for information.

RESOLVED:

(a) The Committee considered the analysis in light of the previously agreed net zero target by 2050;

(b) The Committee considered and agreed each of the proposals in paragraph 1.08 of this report, specifically, targeting net zero by 2045 - a more ambitious timeline; and

(c) The Committee agreed that the Investment Strategy Statement is updated to reflect these commitments for consultation with the Fund's Employers.

32. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded for the remainder of the meeting for the following items by virtue of exempt information under paragraph(s) 14 and 18 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

33. RESPONSIBLE INVESTMENT ROADMAP - CONFIDENTIAL

This item of the agenda was presented and there were no questions relating to this specific element covered in private.

34. CYBER SECURITY IN THE CLWYD PENSION FUND - CONFIDENTIAL

This item of the agenda was presented and discussed.

RESOLVED:

The Committee noted the report for Cyber Security in Clwyd Pension Fund on the initial findings of the investigations around management of cyber risks.

The Chairman thanked everyone for their attendance and hoped to see people at the AJCM later in November and at future training events. The next formal Committee meeting is on 9 February 2022. The meeting finished at 12:00pm.

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Chairman