CLWYD PENSION FUND COMMITTEE
9 FEBRUARY 2022

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely at 9.30am on Wednesday, 9 February 2022

PRESENT: Councillor Ted Palmer (Chairman) - items 1 to 3 and 8 to 11 and Councillor Haydn Bateman (Vice-Chair in the Chair) - items 4 to 7
Councillors: Dave Hughes – joined after item 11, Tim Roberts, Ralph Small

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

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

APOLOGIES. Cllr Julian Thompson Hill (Denbighshire County Council)
Advisory Panel comprising: Philip Latham (Head of Clwyd Pension Fund), Karen McWilliam (Independent Adviser – Aon Hewitt), Gary Ferguson (Corporate Finance Manager), Sharon Carney (Corporate Manager), Paul Middleman (Fund Actuary – Mercer), Kieran Harkin (Fund Investment Consultant – Mercer)

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Sandy Dickson (Investment Adviser – Mercer), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee)

Guest speakers presenting comprising:
Eamonn Gough (Senior Relationship Manager - Link Fund Solutions) - item 7 only, Aidan Quinn (Associate Director - Russell Investments) - item 7 only, Paddy Bortoli (Russell Investments) - item 7 only, Will Pearce (Senior Portfolio Manager - Russell Investments) - item 7 only, Carolyn Skuce (Capital Dynamics) - item 11 only, Barney Coles (Capital Dynamics) - item 11 only, Simon Eaves (Capital Dynamics) - item 11 only

35. DECLARATIONS OF INTEREST (including conflicts of interest)

There were no declarations of interest.

36. MINUTES 10 NOVEMBER 2021

On page 7, Mr Latham noted the recommendation regarding the trainee Fund accountant on item 165. He explained the aim of the recommendation was to appoint a trainee fund accountant before the current Fund Accountant retired which was hoped to still be some time away. However, since the last Committee meeting the current Fund Accountant had decided to leave the Fund, which creates a further resourcing issue and governance risk. Consideration will need to be given to how this gap in resource will be managed during the critical period over the summer when the Fund accounts are prepared and plans will be reported back to Committee in due course. The Chairman requested a letter from the Committee is sent to the departing Fund Accountant, Mr Vaughan, to thank him for his exceptional services to the Fund.

Mr Hibbert queried whether there was any movement on the selection process of the scheme member representative. The Chairman confirmed he was expecting to attend interviews later that week.

The minutes of the meeting of the Committee held on 10 November 2021 were agreed.

RESOLVED:

The minutes of 10 November 2021 were received, approved and signed by the Chairman.

37. ECONOMIC AND MARKET UPDATE AND PERFORMANCE MONITORING REPORT

Mr Harkin announced that Mr Buckland had left Mercer to work for another LGPS Fund. Mr Harkin introduced Mr Dickson who had already been working on the Fund for a period of time.

Page 22 outlined the market update over Q4 2021 and the positive quarter for most growth assets, although he noted that emerging markets equities were down.

Mr Harkin added that the initial scare over the latest COVID-19 variant quickly dissipated as government and central banks were quick to respond. These actions had supported asset price rises over 2021. He noted that since the turn of the year volatility in markets had increased significantly and that geopolitical risk had contributed to this.

Currently, economies around the world were seeing significant levels of inflation, in particular the US and UK. Both the US Federal Reserve and the Bank of England had started to raise short-term interest rates in response. He believed that interest rates rises may be quicker than had previously anticipated but Mercer and the Fund would keep an ongoing dialogue on this matter.

As highlighted on page 43, Mr Dickson confirmed that the Fund performance was 4.7% over Q4 2021, which exceeded the benchmark of 4.2%. The 3-year figure reflected the performance from before the pandemic, throughout the pandemic and to current date. This figure was 11.9%p.a., which was also above the benchmark of 10.4%. The two actuarial discount rate targets of 3.8% and 4.3% identified the return the Fund require to make in order to stand still, and therefore the 3-year figure of 11.9% was significantly higher than the two actuarial targets and this outperformance had contributed to the improvement in funding level.

Mr Dickson noted from page 47 that the WPP Global and ESG Equity assets performed well and other areas of positive returns were from Total Tactical Allocation. Private Markets also produced strong returns of 22.4% over the year and the Cash and Risk Management Framework returned 33.6% over the same period.

The Chairman queried the forecast for future interest rates rises in USA. Mr Harkin noted that the market was expecting 4 to 5 rate rises from the US Federal reserve over the year, and that due to this, these had already been priced in by markets.

RESOLVED:

The Committee considered and noted the update.

38. FUNDING, FLIGHT-PATH AND RISK MANAGEMENT FRAMEWORK

As outlined in the report, Mr Middleman confirmed that at the end of December, the Fund had a funding level of 102%, which was still a strong position. The end of December funding position was lower than previously due mainly to structural factors such as membership experience and the McCloud remedy (combined these equate to roughly a 3% reduction in funding level).

Mr Middleman believed the biggest risk for the Fund was the persistency of the current relatively high inflation as the Fund's liabilities were directly linked to inflation so higher inflation than previously expected would mean an increase in costs, unless expected asset returns increase to compensate. He confirmed this would be a matter for ongoing consideration at future Committees as the Fund reaches the actuarial valuation date on 31 March 2022. Inflation risk was the most significant risk for the Fund with employer budgets and contributions being a key debating point.

An adjustment to the collateral limits was noted in paragraph 1.11 along with the plan to adjust the level of collateral held in the higher yielding assets in the collateral pool pending its investment in Private Markets.

Mr Latham reminded the Committee of the discussions at previous meetings about putting in place a funding level trigger of 110%. Since that discussion, consideration has been given to the governance around the process to change the strategy if the trigger was breached. Mr Latham explained the report proposed the Committee agree to formalising the funding level trigger of 110% and also included a proposed process, which set out the timescale and milestones should this trigger be hit. This proposed process included corresponding with the Committee setting out the proposed changes for comment. Ultimately, a special Committee meeting could be called to debate the changes if any concerns about de-risking are raised in feedback from Committee.

The Committee approved the 110% funding level trigger and agreed the funding level de-risking trigger governance process.

RESOLVED:

(a) The Committee noted the Funding, Flightpath and Risk Management Framework update; and

(b) The Committee agreed to the 110% funding level trigger and agreed the funding level de-risking trigger process.

39. PROPOSED INVESTMENT STRATEGY STATEMENT

At the previous Committee meeting in November 2021, members agreed to the update of the Investment Strategy Statement ("ISS") to reflect the commitment to setting decarbonisation targets for the Fund. Mrs Fielder said that a more detailed review of the ISS would take place later in the year. As required and agreed at the last Committee meeting, the Fund agreed to consult with employers on this and Mrs Fielder confirmed no negative responses had been received as a result of the consultation. Page 100 and 102 of the proposed Investment Strategy Statement highlighted the main areas updated.

Mr Hibbert expressed his view that although he agreed with the content of the revised ISS, he was unable to agree the recommendation. This was because he believed that there was insufficient information from the Wales Pension Partnership ("WPP") to evidence the Fund's aspirations to be 'Responsible Investors', 'Impact Investors' or effective 'Stewards' of all the Fund's monies due to the failure of WPP to provide a report on their stock lending activities to the Committee. Mrs Fielder confirmed that she would raise this matter at the next WPP Responsible Investment ("RI") sub-group.

In regards to the Stock Lending Agreement, Mr Hibbert accepted that 5% of stock is retained for voting but wished to understand the impact of stock lending on the value of the stock over the period of lending. He also wanted to understand the time taken for the stock to regain the value prior to any lending. This would help him determine whether the lending fees paid to the Fund actually provide the added value expected.

Mr Hibbert asked the Committee to formally request the stock lending activity to date from WPP and therefore he disagreed to the recommendation.

Additionally, Mr Hibbert noted a grammatical error on the second paragraph on page 93 which Mrs Fielder confirmed would be corrected in the final published version.

RESOLVED:

The Committee considered, noted and approved the revised Investment Strategy Statement.

40. ASSET POOLING AND WPP ANNUAL UPDATES

At the last Joint Governance Committee ("JGC"), it was agreed to extend the contract with Link's Fund Solutions' Operator to December 2024. Mr Latham added that progress was made regarding the appointment of the co-opted member representative to the JGC and this should be in place by the next JGC in June 2022.

Mr Latham explained that the WPP business plan would not be published in time for the March 2022 Committee but would be available at the June 2022

Committee. In addition, the Government are due to release a consultation on guidance on LGPS asset pooling in summer 2022.

Mrs Fielder confirmed that presentations from short listed candidates for the appointment of Private Market “allocators” were to take place in Cardiff the following week. The role of the allocators would be to select the “best in class” private market managers across separate asset classes. The tender for the appointment of a Private Equity Allocator was anticipated to start in April 2022.

Mr Gough introduced himself as senior relationship manager for Link Fund Solutions and ran through the presentation. He informed the Committee that Link Fund Solutions were expected to be sold to a third party called Dye & Durham but believed this would have no day-to-day impact on the WPP. He noted that the entity would have a clear plan and he was looking forward to what was to come.

Mrs McWilliam asked whether this was a risk for the Fund. Mr Gough believed that it was not a major risk but would keep the Committee up to date as this matter progresses. Mr Latham confirmed that the Officer Working Group (“OWP”) and JGC are monitoring any risk associated with this.

Mr Gough presented the structure of the WPP investments from page 123 and the current investments for the Fund within the WPP on page 124. Overall, the WPP had total assets under management of c£10.5 billion as shown on page 125.

Mr Quinn introduced himself as associate director and Mr Pearce as the senior portfolio manager at Russell Investments.

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

- Russell Investment have research analysts around the world and their manager research pulls together investment managers and regional specialists.
- Page 128 outlined the market performance trends since the inception of WPP’s portfolios. The dotted black line in the middle of the graph was the WPP Global Opportunity Equity Fund. The orange line on the graph represented growth. Mr Pearce said that particular styles of investing often have very big outperformance but over time there will be mean reversion i.e. where growth will come back towards the other styles.
- A breakdown of the WPP Global Opportunities Equity Fund was presented on page 129. Mr Pearce added that a new manager in Japan was introduced in December 2021 called Nissay which replaced NWQ. He confirmed that they would continue to exit NWQ carefully until all exposure in Japan is with the other specialist manager.
- Last year reflected a fantastic market return in the equity markets. As outlined on page 130, the bold bar showed that the market performance sector return was just under c20%.
- The table at the top of page 131 outlined the performance to 31 December 2021, and the WPP Global Opportunities Equity Fund was behind benchmark for Q4 2021. Nonetheless, over the long-term it was ahead of the benchmark as outlined in the bottom table on page 131.
- Page 132 showed the performance of the managers against their specific benchmarks at the end of January 2022 (indicated in colours green and

red). Mr Pearce explained that if Russell Investments are doing their job well over time by adding value all would be green. The range of colours in the chart showed the benefits of diversification as different styles add value at different times in the economic cycle.

- From the sector chart on page 133, the financials were overweight whereas in terms of regions, the US markets remain expensive so the WPP Global Opportunities Equity Fund was underweight the US market and therefore overweight to other regions, primarily emerging markets and Europe.
- In terms of manager research, all research analysts are spending at least a portion of their time explicitly focusing on ESG.
- Given the Clwyd Pension Fund's public commitment to have net-zero carbon emissions by 2045, the Russell funds have also signed up to a net-zero carbon emissions target of 2050 and are therefore putting in place a framework for transparency and reporting on the progress of the solutions against net-zero targets.
- Page 138 outlined the exposure to carbon against the benchmark. Mr Pearce confirmed there was a specialist team that checked that the WPP funds continue to have significant less exposure to carbon going forward.

Mr Quinn noted the WPP Emerging Market Equity Sub-fund launch last year, which was dedicated to Emerging Markets only. He added the following key points:

- A China specialist was added to this sub-fund given the increasing weight in the market index and he believed there was a good opportunity in China in terms of growth and the domestic market.
- Page 142 displayed the latest position of the sub-fund from the end of October 2021 and the six managers with different styles including the China specialist. Despite the small weight to the China specialist, Mr Quinn was comfortable with the weight and believed it could grow overtime.
- An enhanced portfolio implementation ("EPI") and decarbonisation summary was reflected on page 143 and proved this was working successfully for the WPP.
- Given the desire to have a sub-fund that achieved more than an investment return i.e. to be aligned with climate change targets, a new sub-fund was under construction as outlined on page 145. Mr Quinn said that a paper with more information would follow on this.

Mr Hibbert stated that he continued to be impressed with the operation of Russell investments and seeing the theory actually work in practice.

Regarding Russell Investments' net-zero target of 2050, Mrs Fielder questioned whether there were clients with different targets within the WPP and how the company dealt with the different views. Mr Pearce said that he was currently analysing each client globally regarding what is in scope in terms of net-zero managers. He believed that the interim targets (net-zero by 2025 and 2030) were more important to focus on primarily and thereafter the overall target would come together in time.

In regards to the FRC Stewardship Code, Mr Dickson noticed that Russell Investments were not listed as a signatory to the Code and he asked what steps would be taken to achieve this. Mr Pearce explained that the Code had changed dramatically recently and Russell was working through the requirements. News would follow on this in the next few months.

As investment managers within a portfolio structure have a range of different styles, Mr Harkin asked how Russell Investments deals with different manager views. He also asked whether they had the ability to suggest their own views given the likelihood of a strong dislocation in interest rates in the future, such as is the case in the US currently. Mr Pearce said that they have a team of specialists who work full-time as economists, analysing the market daily and in particular considering interest rates and unemployment. He added that one of their team members previously worked for the US Federal Reserve so is an expert on this matter. Russell's current view was that high inflationary numbers, such as 5% and above, will subside as the year goes on. In terms of the portfolio, given the continued levels of above average growth, inflation will therefore subside.

On page 147, Mr Quinn noted the Multi Asset Credit ("MAC") Fund launched in August 2020 and explained it had multiple underlying asset classes to it. BlueBay was a multi-sector specialist and had access to all the specialist managers.

Since inception, the performance of the sub-fund was within expectations i.e. a return of 5.47% against a net target of 4.11%, but over Q4 2021, the MAC Fund delivered a flat return, which was behind the target.

The performance of the MAC Fund over time was reflected on the graph on page 149. The orange dotted represented its target, which was cash + 4% whereas the black dotted lines reflected Russell Investments expectations through volatility. In addition, the blue line showed the expectations of the performance of the MAC Fund. From this, it could be seen that the MAC Fund had a good start since inception but more recently, the orange trend line was moving towards where it was expected to be.

Mr Quinn noted the review of the MAC Fund outlined on page 150. He confirmed that fund manager Man GLG and the emerging market debt manager had struggled slightly as an asset class given the concerns in China. Other emerging market countries also struggled such as Turkey and Russia. Mr Quinn said that he would keep a close eye on this manager to ensure they remained appropriate for the MAC Fund.

Mrs Fielder asked whether strategies within the MAC Fund could be adjusted as quickly and easily as it is to change investment managers. In terms of strategies, Mr Quinn said that they are broadly based on what you would expect. As loans struggled in March 2020, high yield also struggled. Despite this, all classes perform better at different times for different reasons, which is why he believed it was important to have different exposure to all of them. In regards to new strategies, the portfolio manager was looking into how to manage the MAC Fund duration and sensitivity to interest rates and discussions would be held on this in the coming months.

RESOLVED:

(a) The Committee considered and noted the update; and

(b) The Committee received the presentation from the WPP Operator and Investment Manager.

41. INVESTMENT AND FUNDING UPDATE

Mrs Fielder introduced this paper and explained that since the Committee agenda pack was distributed, the DLUHC had published the Levelling Up Whitepaper, which outlined proposed expectations for LGPS Funds to have up to 5% of assets allocated to projects, which support local areas. Mrs Fielder explained that this was not new, as the Clwyd Pension Fund had already been supporting local areas for years with over £132 million worth of commitments agreed, which is already over the 5% target. Unfortunately, Mrs Fielder confirmed it was possible that the steps the Fund had previously taken would not be included in this 5% target but we need to wait for the consultation to understand how this will need to be implemented.

In paragraph 1.05, Mrs Fielder confirmed that the pressure group had moved on from fossil fuels and was now looking at livestock companies.

As alluded to at the last Committee, the Fund officers and advisers had been investigating more private market opportunities and this was well underway with more commitments outlined in the table in paragraph 1.12. This included Capital Dynamics and more details on this were explained in the next agenda item.

Regarding the exposure to industrial livestock companies in paragraph 1.05, Councillor Bateman explained he had received correspondence from a constituent who highlighted concerns about this. He asked whether Mrs Fielder was happy to respond to the letter he had received. Mrs Fielder confirmed she would respond to the request.

RESOLVED:

The Committee considered and noted the update.

42. 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 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

43. CLEAN ENERGY PROJECTS IN WALES – SEPARATE MANAGED ACCOUNT

This item of the agenda was presented and discussed.

RESOLVED:

The Committee received a report and presentation from Capital Dynamics on the implementation of a Separate Managed Account for the Clwyd Pension Fund to invest in direct clean energy projects in Wales.

The Chairman thanked everyone for their attendance. The next formal Committee meeting is on 16 March 2022. The meeting finished at 12:15pm.

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Chairman