

Public Document Pack

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To: Councillor Ted Palmer (Chairman)

Councillors: Haydn Bateman, Dave Hughes, Tim Roberts and Ralph Small

Co-opted Members:

Steve Hibbert, Councillor Andrew Rutherford, Councillor Nigel Williams - Wrexham County Borough Council and Councillor Julian Thompson-Hill - Denbighshire County Council

3 February 2022

Dear Sir/Madam

NOTICE OF REMOTE MEETING
CLWYD PENSION FUND COMMITTEE
WEDNESDAY, 9TH FEBRUARY, 2022 at 9.30 AM

Yours faithfully

A handwritten signature in black ink, appearing to read 'Gareth Owens', enclosed in a rectangular box.

Gareth Owens
Chief Officer (Governance)

Please note: This will be a remote meeting and 'attendance' will be restricted to Committee Members and those Members of Council who have asked the Head of Democratic Services for an invitation. Such attendees may only speak at the Chair's discretion.

The meeting will be live streamed onto the Council's website. A recording of the meeting will also be available, shortly after the meeting at <https://flintshire.publici.tv/core/portal/home>

If you have any queries regarding this, please contact a member of the Democratic Services Team on 01352 702345.

A G E N D A

1 APOLOGIES

Purpose: To receive any apologies.

2 DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)

Purpose: To receive any Declarations and advise Members accordingly.

3 MINUTES (Pages 5 - 14)

Purpose: To confirm as a correct record the minutes of the last meeting held on 10 November 2021.

4 ECONOMIC AND MARKET UPDATE AND PERFORMANCE MONITORING REPORT (Pages 15 - 52)

Purpose: To provide Committee Members with an economic and market update and performance of the Fund and Fund Managers.

5 FUNDING, FLIGHT-PATH AND RISK MANAGEMENT FRAMEWORK (Pages 53 - 70)

Purpose: To update Committee Members on the funding position, and the implementation of the Flight path and risk management framework including the funding level de-risking trigger protocol.

6 PROPOSED INVESTMENT STRATEGY STATEMENT (Pages 71 - 104)

Purpose: To provide Committee Members with the updated Investment Strategy Statement to note, comment on and approve following consultation with Employers.

7 ASSET POOLING AND WPP ANNUAL UPDATES (Pages 105 - 156)

Purpose: To provide Committee Members with an update on Pooling Investments in Wales, including presentations from the WPP Operator and Investment Management Solution Provider.

8 INVESTMENT AND FUNDING UPDATE (Pages 157 - 190)

Purpose: To provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund.

9 FUTURE MEETINGS

Purpose: Future meetings of the Clwyd Pension Fund will take place at 9.30 am on :-

Wednesday, 16th March 2022

Wednesday, 15th June 2022

10 **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 - TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

The following item is considered to be exempt by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The report contains the proposed terms for a commercial transaction and the public interest in not revealing the information outweighs the public interest in revealing the information until the transaction has been completed.

11 **CLEAN ENERGY PROJECTS IN WALES - SEPARATE MANAGED ACCOUNT** (Pages 191 - 212)

Purpose: To provide Committee Members with 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.

Procedural Note on the conduct of meetings

The Chair will open the meeting and introduce themselves.

The meeting will be attended by a number of Councillors. Officers will also be in attendance to present reports, with Democratic Services officers acting as hosts of the meeting.

All attendees are asked to ensure their mobile phones are switched off and that any background noise is kept to a minimum.

All microphones are to be kept muted during the meeting and should only be unmuted when invited to speak by the Chair. When invitees have finished speaking they should go back on mute.

To indicate to speak, Councillors will use the chat facility or use the electronic raise hand function. The chat function may also be used for questions, relevant comments and officer advice and updates.

The Chair will call the speakers, with elected Members addressed as 'Councillor' and officers addressed by their job title e.g. Chief Executive' or name. From time to time, the officer advising the Chair will explain procedural points or suggest alternative wording for proposals, to assist the Committee.

If and when a vote is taken, the Chair will explain that only those who oppose the proposal(s), or who wish to abstain will need to indicate, using the chat function. The officer advising the Chair will indicate whether the proposals are carried.

If a more formal vote is needed, this will be by roll call – where each Councillor will be asked in turn (alphabetically) how s/he wishes to vote

At County Council and Planning Committee meetings speaker's times are limited. A bell will be sounded to alert that the speaker has one minute remaining

The meeting will be live streamed onto the Council's website. A recording of the meeting will also be available, shortly after the meeting at <https://flintshire.public-i.tv/core/portal/home>

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.

162. **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.

163. **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.

164. **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.
- (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.

165. **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.
- (c) The Committee agreed to the change to the Finance Section including a trainee fund accountant at an annual cost of £38k to £46k.

166. **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.

167. 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.

168. **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.

169. **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£2.4 billion 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.

170. **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.

171. 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 CO2e 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.
- (a) 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.
- (b) The Committee agreed that the Investment Strategy Statement is updated to reflect these commitments for consultation with the Fund’s Employers.

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).

172. RESPONSIBLE INVESTMENT ROADMAP - CONFIDENTIAL

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

173. 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

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 9th February 2022
Report Subject	Economic and Market update and Performance Monitoring report
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to update the Committee on the Economy and Markets, and the Performance of the Fund's investments.

The reports cover periods ending 31 December 2021, and are attached as appendices to this report.

Key points to note:

Economy and Markets

- Major equity markets including US, UK and European saw positive returns over Q4 2021, Japanese and Emerging Market Equities struggled over the period generating negative returns.
- Inflation continued to be a key threat in developed markets. The Bank of England responded by tightening the monetary policy and raising interest rates from 0.1% to 0.25%, the first rate rise since August 2018.
- In the US, projections by members of the Federal Open Market Committee pointed towards three lots of 0.25% increases in the federal funds rate in 2022.

Performance Monitoring Report

- Over the three months to 31 December 2021, the Fund's total market value increased by £102m to £2,484.6m
- Fund Performance over 3 months, 12 months and 3 years; +4.7%, +17.7% and +11.9% p.a. respectively.
- Fund Performance is ahead of Composite benchmark over all periods shown
- The Fund performance is comfortably ahead of the Strategic target and both Actuarial targets over all periods
- Asset classes are broadly in line with their strategic target weights, with the exception of the Private Market assets, which are still growing towards their strategic targets.

Performance of the Fund's assets are monitored and reviewed monthly by the Fund's Officers and advisers.

RECOMMENDATIONS

1.	That the performance of the Fund over periods to the end of December 2021 are noted along with the Economic and Market update which effectively sets the scene.
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REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Economic and Market Update</p> <p>The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following key sections:</p> <ul style="list-style-type: none">• Economic and Market Background – an overview of markets in the quarter, including commentary on key economic indicators• Equity Market Review – information on the performance of equity markets during the quarter and key drivers of markets• Bond Market (Fixed Income) Review – provides an update on bond yield movements and interest rates for the period• Currencies, Commodities and Alternatives Review – provides an update on the performance of Sterling against other currencies as well as highlighting movements in major commodity and alternatives asset classes for the period
1.02	<p>The quarter was another generally positive one, with most major markets seeing positive returns. Inflation continued to be of concern with rates rising to 5.4% in December. The initial scare over the latest COVID-19 variant quickly dissipated as it appears to be neither as severe nor as vaccine resistant as initially feared. As a result, most countries have not imposed major restrictions. Equity investors continued to focus on the strong earnings outlook for the year ahead now that the economic recovery is less likely to be disrupted by COVID-19.</p> <p>Strong returns (+6.2%) were seen in Global equities over the quarter, with UK equities also performing well; returning +4.2%.</p> <p>In the UK Government Bond yields fell over the quarter, resulting in positive returns from long dated fixed interest gilts of +5.6%.</p> <p>Sterling rose against the US Dollar, Euro and the Yen over the quarter.</p> <p>Commodities markets continued their growth with another positive return, albeit less strong than previous quarters, returning 1.1%.</p> <p>A verbal update will be provided to Committee to provide an update to market movements since the writing of this report.</p>

1.03	<p>Performance Monitoring report</p> <p>Over the three months to 31 December 2021, the Fund’s total market value increased by £102m to £2,484.6m</p> <p>This means that the Total Fund has increased in value by £362.9m in the calendar year 2021.</p>																								
1.04	<p>It is appropriate to measure performance at a Total Fund level by comparing to a number of different targets:</p> <ul style="list-style-type: none"> • The first of these is the assumed return that the Actuary includes within the triennial valuation - Actuarial Target. This is the most crucial target as actual performance needs to be ahead of this to ensure that the Fund maintains, or improves its funding level. This currently set at CPI (Consumer Price Index) +1.75% p.a. for past service liabilities and CPI + 2.25% for future service liabilities. • The second performance measure is the overall assessment of potential return when the Fund reviews and sets its investment strategy – Strategic Target. (This is currently CPI +3.4% p.a.) • The final target is the composite benchmark – Total Benchmark. This is a composite of each of the individual manager benchmarks, weighted by strategic target allocation. For most investment managers the benchmark does not include an expectation of outperformance, with the exception of Wellington Emerging Market equities and WPP Global Opportunities equity. <p>The performance against all benchmarks is shown on Page 6 of the report, and repeated below:</p> <table border="1" data-bbox="320 1198 1326 1574"> <thead> <tr> <th></th> <th>Quarter (%)</th> <th>1 Yr (%)</th> <th>3 Yrs (%)</th> </tr> </thead> <tbody> <tr> <td>Total</td> <td>4.7</td> <td>17.7</td> <td>11.9</td> </tr> <tr> <td>Total Benchmark</td> <td>4.2</td> <td>13.2</td> <td>10.4</td> </tr> <tr> <td>Strategic Target (CPI +3.4% p.a.)</td> <td>1.3</td> <td>5.5</td> <td>5.5</td> </tr> <tr> <td>Actuarial Target – Past Service Liabilities (CPI +1.75% p.a.)</td> <td>0.9</td> <td>3.8</td> <td>3.8</td> </tr> <tr> <td>Actuarial Target – Future Service Liabilities (CPI +2.25% p.a.)</td> <td>1.1</td> <td>4.3</td> <td>4.3</td> </tr> </tbody> </table> <p>The table shows strong outperformance by the Fund against all measures over 3 months, 1 year and 3 years periods.</p>		Quarter (%)	1 Yr (%)	3 Yrs (%)	Total	4.7	17.7	11.9	Total Benchmark	4.2	13.2	10.4	Strategic Target (CPI +3.4% p.a.)	1.3	5.5	5.5	Actuarial Target – Past Service Liabilities (CPI +1.75% p.a.)	0.9	3.8	3.8	Actuarial Target – Future Service Liabilities (CPI +2.25% p.a.)	1.1	4.3	4.3
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1.05	<p>The strongest absolute returns over the quarter came from the Cash and Risk Management Framework (CRMF), Private Markets and Tactical Allocation (Best Ideas) portfolio. The CRMF returned +10.7%, Private markets returned +4.6% and Tactical Allocation portfolio returned 3.8%.</p> <p>Within Private Markets the strongest returns were seen in the Local/Impact and Private Credit portfolios with returns of +7.6% and +5.9% respectively.</p> <p>The BlackRock ESG Equity portfolio generated another strong quarter of performance, returning +6.8%.</p>																								

	<p>In the 12 months to 31 December 2021, the best returns came from the CRMF, Private Markets and Tactical Allocation portfolio. The CRMF returned +33.6%, with Private Markets and the Tactical Allocation portfolio returning +22.4% and +16.4% respectively.</p> <p>The performance of individual managers is shown in the report and is regularly reviewed by Officers and advisers, and at this stage there are no concerns that need addressing, however all positions are being monitored closely.</p>
1.06	<p>The transition of assets in the summer of 2021 brought most asset classes in line with the target strategic weights. Due to strong performance of listed developed market equities in the quarter, Global equity remain marginally overweight. As a result the Private Markets assets are now nearly 4% under target weight, although this is well within the agreed strategic tolerance, and a work plan is in place to bring this in line over the next couple of years. All other asset classes are well within the agreed strategic ranges.</p>
2.00	RESOURCE IMPLICATIONS
2.01	<p>None directly as a result of this report.</p>
3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>None directly as a result of this report.</p>
4.00	RISK MANAGEMENT
4.01	<p>The Fund's investment strategy has been designed to provide an appropriate trade-off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk.</p> <p>Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.</p>
4.02	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Governance risk: G2 • Funding and Investment risks: F1 - F6 •
4.03	<p>The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound.</p>

5.00	APPENDICES
5.01	Appendix 1 - Economic and Market Update – 31 December 2021 Appendix 2 – Performance Monitoring Report – 31 December 2021
6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update and Investment Strategy and Manager Summary 31 December 2021. Contact Officer: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk
7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) Absolute Return – The actual return, as opposed to the return relative to a benchmark.</p> <p>(b) Annualised – Figures expressed as applying to 1 year.</p> <p>(c) Duration – The weighted average time to payment of cash flows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.</p> <p>(d) Market Volatility – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.</p> <p>(e) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cash flows.</p> <p>(f) Relative Return – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.</p> <p>(g) Three-Year Return – The total return on the fund over a three year period expressed in percent per annum.</p> <p>(h) Time-Weighted Rate of Return – The rate of return on an investment removing the effect of the amount and timing of cash flows.</p> <p>(i) Yield (Gross Redemption Yield) – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cash flows.</p> <p>A comprehensive list of investment terms can be found via the following link: https://www.schroders.com/en/uk/adviser/tools/glossary/</p>

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Clwyd Pension Fund

Economic and Market Update

Page 21

Q4 2021

Monthly Capital Market Monitor (UK)

December 2021

2021 ends optimistically as variant scare recedes

Global equity markets recovered in December from the previous month's slump, ending the year on a positive note. The initial scare over the latest Covid-19 variant quickly dissipated as it appears to be neither as severe nor as vaccine resistant as initially feared. As a result, most countries have not imposed major restrictions. Equity investors continued to focus on the strong earnings outlook for the year ahead now that the economic recovery is less likely to be disrupted by Covid-19. Those equity markets that suffered most in November such as the UK and Europe outperformed the US. Value outperformed growth stocks in this cyclical rebound. Emerging markets proved to be an exception in December, posting another lackluster month. For the 2021 calendar year, energy, real estate, technology and financial services were the best performing sectors, while Telecommunications lagged.

Economic data indicated that the recovery remained well on track with forward-looking purchasing manager indices still in expansion territory, although gradually receding from their recovery peaks. Inflation remained high prompting major central banks to further accelerate their exit strategies from expansive monetary policies. The Federal Reserve announced a doubling in the pace of its tapering from January 2022, while the Bank of England, Hungary and Norway increased short-dated rates.

The US avoided a year-end fiscal cliff after Congress voted to extend the debt ceiling beyond next year's mid-term elections. However, Biden's Build Back Better plan got stuck in the Senate as moderate Democrats push for a more modest bill amid concerns about inflation and overall debt levels.

10-year yields in most major regions ended the month only moderately higher, but yields rose significantly at the shorter end of the curve for both the US and UK as markets priced in a faster pace of monetary tightening. The Bank of England (BOE) announced it would raise the base rate by 15bps to 0.25%. Both yield curves flattened as a consequence, reflecting concerns that central banks may move too fast next year. Investment grade credit spreads hardly changed, but high yield spreads declined considerably, recovering from the high yield sell-off in late November.

Geopolitical events did not appear to have an impact on broad markets but reminded investors of short term tail risks from politics. NATO and Russia continued to face off over Ukraine, most western countries announced diplomatic boycotts of China's Winter Olympics. The election of a leftwing candidate in Chile led to a collapse in its stock market, while the self-inflicted collapse of the Turkish Lira intensified after its politicized central bank cut rates further.

Energy prices recovered with oil rising by almost 11% after last month's sell-off as fears from the Covid-19 variant receded. Other commodities also recovered as investors became more optimistic on the continuation of the ongoing economic rebound.

Sterling strengthened versus major developed and emerging market currencies as the US Dollar weakened in the risk on environment over the month. The BOE raising rates also provided additional strength to Sterling over the month.

At a Glance

Market Returns in % as of end of December 2021 in GBP

Major Asset Class Returns	1M	Q4	1Y
MSCI ACWI	1.6	6.2	19.6
S&P 500	2.1	10.5	29.9
FTSE All Share	4.7	4.2	18.3
MSCI World ex-UK	1.8	7.5	23.6
MSCI EM	-0.5	-1.8	-1.6
Bloomberg Barclays Global Aggregate	-2.5	-1.1	-3.8
ICE Bank of America Sterling Non-Gilt index	-1.2	0.4	-3.0
Bloomberg Barclays High Yield	-0.4	0.3	6.1
FTSE WGBI	-2.9	-1.5	-6.1
FTA UK Over 15 year gilts	-5.0	5.6	-7.3
FTA UK 5+ year ILG's	-6.1	5.4	4.2
NAREIT Global REITs	4.0	9.9	28.4
Bloomberg Commodity TR	1.1	-2.0	28.3

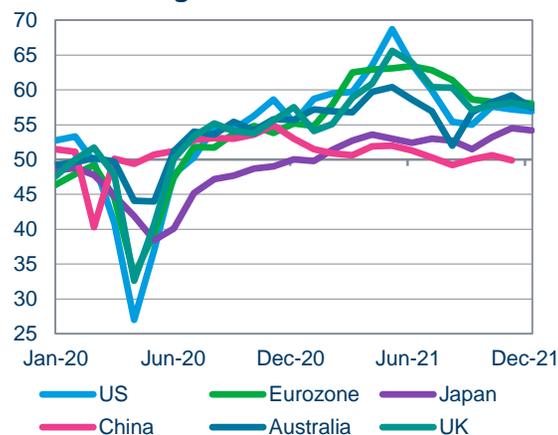
Source: Refinitiv Datastream; as of 31/12/2021

Economy, policy and market drivers

Monetary policy and Covid-19 moved markets

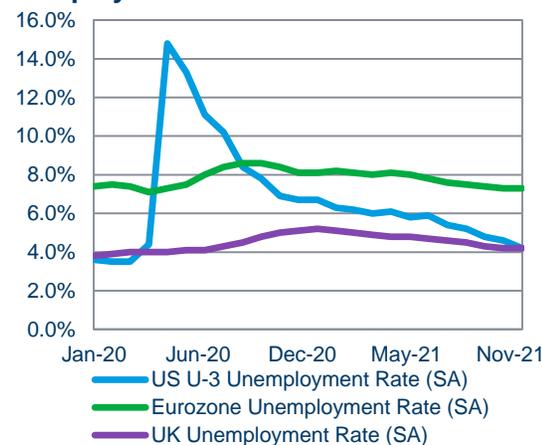
- Another Covid-19 scare, tighter monetary policy and soaring inflation dominated the news during the holiday season, but the immediate economic impact was limited and equity markets ended the year on a positive note.
- Q3 GDP numbers for the US, UK, Eurozone and other major regions were still solid due to the strong rebound in the previous quarter. Purchasing manager indices remained well in expansion territory even though they started to fall off the rebound peaks achieved earlier in the year, especially for the UK and Eurozone. Unemployment also kept falling in major regions. US nonfarm payrolls remained strong but came in below expectations, driven to some degree by hiring difficulties.
- The latest Covid-19 variant continued to make headlines as it became the dominant strain across the much of the world, but the results of initial studies gave reason for optimism, as the strain appears less severe than its predecessors. The US and UK have encouraged booster vaccinations, but generally have not enacted new restrictions, whereas some countries in continental Europe and Asia have seen the return of activity restrictions. The US saw some disruptions in Christmas air travel, but a reduction in the length of quarantines seems to have reduced staffing shortages. Overall, markets turned increasingly optimistic towards year end that the current scare will likely pass and not derail the global recovery.
- Monetary policy was the other major theme. Inflation in the US, UK and Eurozone remained high and central banks continued to remain vigilant. The Federal Reserve doubled the pace of tapering from January 2022, setting the path for potential interest rate increases in 2022. Central banks in the UK, Norway and Hungary increased short dated rates. In other regions such as the Eurozone, Japan, Australia and Canada, central banks remained on hold.
- The US debt ceiling was extended to the end of 2022, but President Biden's Build Back Better plan stalled in the Senate amid concerns within the Democratic Party that spending plans will prove to be inflationary and raise the national debt to an unacceptable level.
- Geopolitical disputes between western countries, China and Russia continued. A diplomatic boycott of China's Winter Olympics was announced by major western countries while Russia and NATO faced off over Ukraine.

Manufacturing PMIs



Source: Bloomberg; as of 31/12/2021

Unemployment Rates



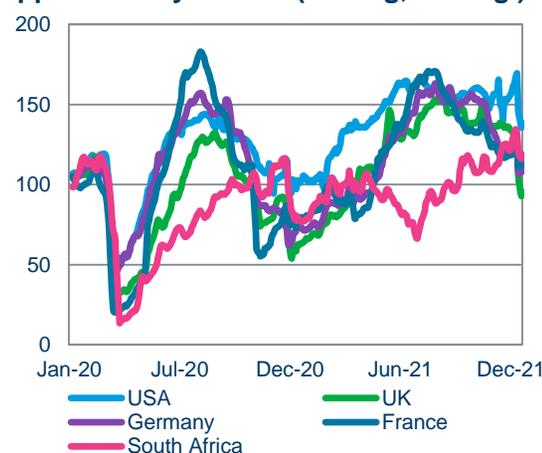
Source: Bloomberg; as of 30/11/2021

Consumer Price Index (Year-over-Year)



Source: Bloomberg; as of 30/11/2021

Apple Mobility Trends (Driving, 7D Avg.)



Source: Apple.com; as of 31/12/2021

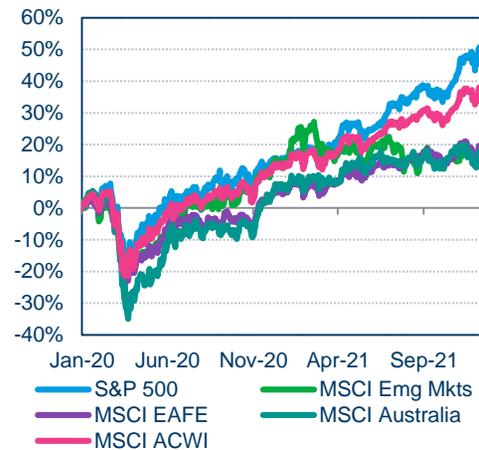
Returns in GBP unless stated otherwise.

Equities

Equity markets finish 2021 optimistically, near all-time highs

- The MSCI All Country World Index ('ACWI') returned 1.6% for the month and ended the year with an incredible 19.6% return.
- While the month had a few ups and downs, equity markets shrugged off the scare over Covid-19 as medical data was encouraging and only a few countries imposed far-reaching restrictions. Monetary policy was the other worry, but one that had largely been priced in by equity markets. Therefore, hawkish statements and actions seen by major central banks in December had less of an impact on equity markets than on bond markets.
- Positive momentum for equity markets continued to be driven by a strong earnings outlook. Even after an expected 45% rebound in year-on-year earnings for 2021, analysts are expecting 10% earnings growth for 2022¹.
- Value outperformed growth (as measured by Russell 3000) by a margin of around 4.1% as markets switched back from last month's 'stay at home' theme that benefited growth stocks to renewed recovery and 'staying open' optimism.
- On a country level this benefited markets beaten down in the previous month with more cyclical, global trade exposure, including Europe and the UK which outperformed US markets. The exception was Japan which underperformed the US significantly.
- Emerging markets returned almost 0.5% during the month. China declined 5.4% over the month as its economy continues its slow down, which was a significant drag on the index. Positive returns for Brazil, Taiwan and Korea offset this to a degree. Russia had another month of negative returns in spite of the recovery in oil prices, while returns for India were 1.3%.
- Emerging markets underperformed the MSCI ACWI by 21.2 percentage points over the year after underperforming by 2% in 2020. This was driven by the regulatory crackdown and ensuing slowdown in China and an equally terrible year for Brazil. Other large emerging market countries such as Russia and India outperformed the MSCI ACWI.
- Equity volatility measured via the VIX index started the month at elevated levels but receded over the month as optimism returned, leading the VIX to end the year lower than it started.

Global Equity Performance (GBP)



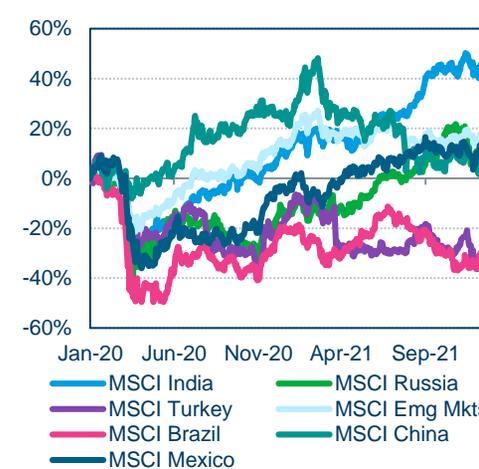
Source: Databank, Data as at 31/12/2021

European Equity Performance (GBP)

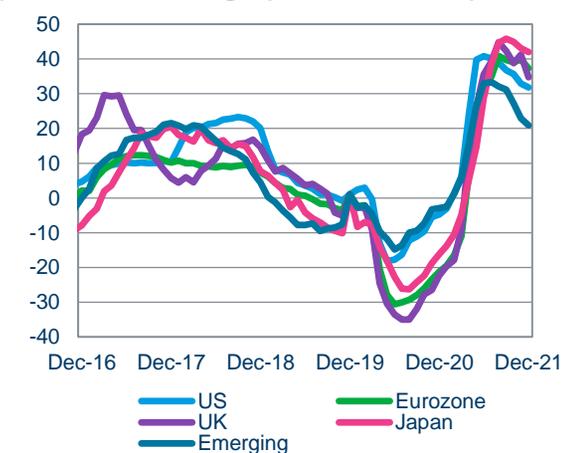


Source: Databank, Data as at 31/12/2021

Emerging Market Equity Performance (GBP) Forward Earnings (Year-over-Year)



Source: Databank, Data as at 31/12/2021



Source: Datastream; as of 31/12/21

¹ Source: <https://insight.factset.com/sp-500-cy-2021-earnings-preview-record-high-earnings-and-sales-growth-in-cy-2021>

Returns in GBP unless stated otherwise.

Fixed income

Short end of yield curves react to accelerated tightening

- Major developed 10-year government yields ended the month only marginally higher, led by the UK and Eurozone where 10-year yields rose by around 15-20 basis points. Meanwhile, 10-year yields rose by 9 basis points in the US. While 10-year yields did not move by much for either the US or UK, yields at the shorter end of both curves spiked more significantly as investors positioned for a tighter monetary environment.
- In the UK, the Bank of England accelerated their tightening of monetary policy by raising the base rate. They increased the rate by 15bps to 0.25%, the first rate hike since August 2018.
- The more optimistic economic outlook, diminishing Covid-19 fears, persistently high inflation and central banks becoming more hawkish led investors to bring forward rate hike expectations. The flattening of the yield curve suggests investors are worried about central banks hiking too quickly.
- For 2021 as a whole, 10-year yields for major global regions were up between 30 and 80 basis points. Japan was the obvious exception where the yield was largely unchanged.
- Credit spreads fell slightly for investment grade but declined considerably for high yield after the sell-off in November. Like equities, high yield benefited from a return in risk-on sentiment. For the year as a whole, investment grade spreads were little changed while high yield spreads were down substantially.
- 10-year break-even in the UK, decreased by 23 bps over the month. For 2021, inflation expectations have rallied, up by 95 basis points for the UK as inflation returned with a vengeance, following two years of fiscal and monetary stimulus combined with lockdown-induced supply destruction.
- Local currency emerging market debt gained 1.6% (USD return) in December, but finished 2021 down by 8.7% (USD return). Evergrande and Kaisa, the large Chinese property developers caught in the deleveraging drive officially defaulted on their US dollar debt and China's government already indicated that there will be no bailouts. There was no major market reaction to these events which were largely expected and priced in since summer.

10-Year Government Bond Yields



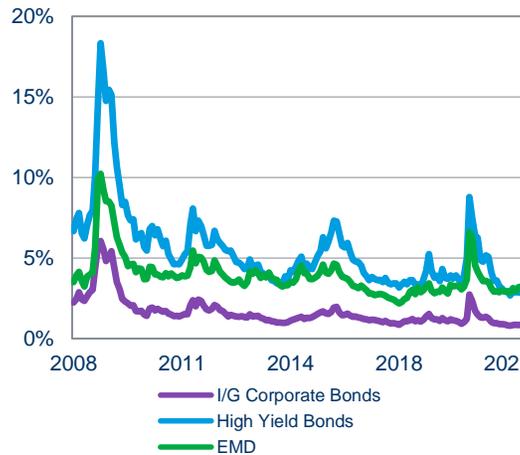
Source: Bloomberg; as of 31/12/2021

30 – 2 Year Government Yield Spread



Source: Bloomberg; as of 31/12/2021

Credit Spreads



Source: Bloomberg; as of 30/11/2021

10-Year Inflation Breakeven Rates



Source: Bloomberg; as of 31/12/2021

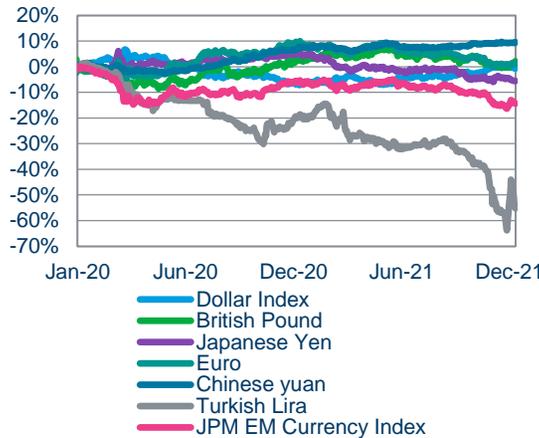
Returns in GBP unless stated otherwise.

Currencies, commodities and alternatives

Commodities recover as optimism returns, US dollar weakens

- Sterling appreciated against both major developed and emerging market currencies through the month, the BOE raising rates provided strength to Sterling over the month. Additionally, as risk on sentiment returned and demand for safe haven currencies such as the US Dollar and Japanese Yen weakened. For 2021 as a whole, Sterling appreciated against all major currencies except the US and Canadian Dollar. This reflects the strong rebound in economic activity and expected tighter monetary conditions in the UK.
- The currency crisis in Turkey intensified when its politicized central bank continued to cut rates in spite of soaring inflation. This led to the Turkish lira depreciating by as much as 27% intra-quarter until it recovered somewhat in late-December when Turkey's government promised to cover forex losses for deposit-holders. The Chilean Peso also took a major hit intra-month, following the election of a leftist government.

Currency Returns



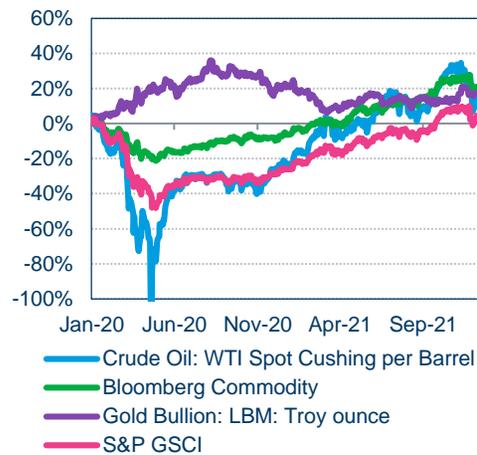
Source: Bloomberg; as of 31/12/2021

Gold & Bitcoin



Source: Databank, Data as at 31/12/2021

Commodities (GBP)



Source: Databank, Data as at 31/12/2021

REITs, Hedge Funds, Infrastructure (GBP)



Source: Databank, Data as at 31/12/2021

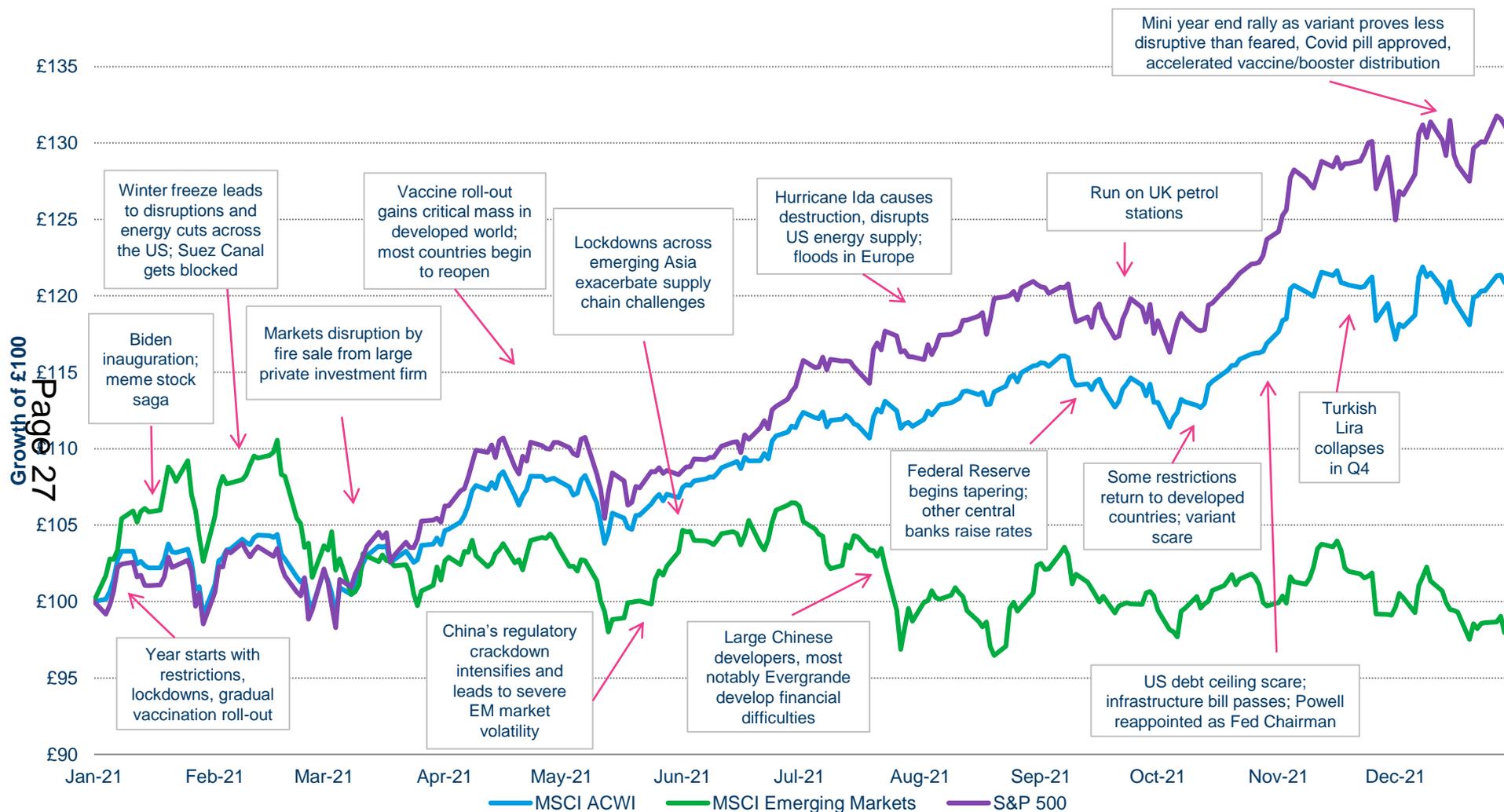
Page 26

- Oil prices rallied by almost 11% over the month as investors re-evaluated the risks to global travel and mobility posed by the latest Covid-19 variant which has turned out to be less disruptive than feared. Many countries were quick to roll back travel restrictions from Southern Africa and only very few countries imposed meaningful mobility restrictions. For 2021 as a whole, oil increased by 56.4%, reflecting a pick up in demand as economies reopened while supply increased at a lower pace.
- Other commodities also rallied for similar reasons. The S&P North American Natural Resources Index returned around 1.5% in December, and almost 41.2% for the year.
- Gold rose by around 0.5% over the month as inflation readings remained high and the US dollar weakened later in the month. For 2021, gold was down 2.6% as tighter monetary conditions increased the opportunity costs of holding gold. Bitcoin and other cryptocurrencies sold off heading into year-end, with Bitcoin declining 19% (in USD) during December.
- Global REITs returned 4% in December and 28.4% for the year. Optimism prevailed as the housing market remained strong and re-openings improved the prospects for commercial property.
- Hedge funds, measured by the HFRX equal weighted strategies index, returned 0.5% during December and 2.5% for the year.

Returns in GBP unless stated otherwise.

2021 in Review

Markets and major developments



Source: Datastream and Mercer Research

All indices in GBP. Total return indices for MSCI ACWI, S&P 500 and MSCI Emerging Markets.

Note: For visual reasons, events might not exactly pinpoint to the day they actually happened. We do not imply a direct causal relationship between market movements and every single event.

Valuations and yields

Ending 31 December 2021

Valuations

FTSE ALL-Share	31/12/2021	30/9/2021	30/6/2021	31/3/2021
Index Level	8363.9	8027.1	7852.4	7435.6
P/E Ratio (Trailing)	21.0	23.9	88.8	111.6
CAPE Ratio	19.6	19.1	19.0	17.8
Dividend Yield	3.6	3.7	3.1	3.1
P/B	1.8	1.8	1.8	1.7
P/CF	7.5	7.6	5.6	5.3

MSCI World ex-UK	31/12/2021	30/9/2021	30/6/2021	31/3/2021
Index Level	9674.6	8969.6	8969.2	8318.5
P/E Ratio (Trailing)	23.5	23.6	29.5	33.3
CAPE Ratio	33.4	31.3	31.1	29.1
Dividend Yield	1.6	1.7	1.6	1.7
P/B	3.4	3.2	3.3	3.1
P/CF	14.4	13.7	13.3	12.7

MSCI EM	31/12/2021	30/9/2021	30/6/2021	31/3/2021
Index Level	608.3	616.4	670.6	638.4
P/E Ratio (Trailing)	21.7	15.1	18.7	21.5
CAPE Ratio	14.5	15.2	17.2	16.4
Dividend Yield	2.0	2.2	1.9	1.9
P/B	2.0	1.9	2.1	2.1
P/CF	8.3	9.4	9.1	11.9

Source: Bloomberg, Thomson Reuters Datastream

Yields

Global Bonds	31/12/2021	30/9/2021	30/6/2021	31/3/2021
Germany – 10Y	-0.18	-0.20	-0.21	-0.29
France - 10Y	0.20	0.16	0.13	-0.05
US - 10Y	1.51	1.49	1.47	1.74
Switzerland – 10Y	-0.14	-0.16	-0.22	-0.28
Italy – 10Y	1.17	0.86	0.82	0.67
Spain 10Y	0.57	0.46	0.41	0.34
Japan – 10Y	0.07	0.07	0.06	0.10
Euro Corporate	0.52	0.35	0.33	0.36
Euro High Yield	3.55	3.16	2.97	3.22
EMD (\$)	5.27	5.11	4.89	5.26
EMD (LCL)	5.87	5.49	5.04	5.09
US Corporate	2.33	2.13	2.04	2.28
US Corporate High Yield	4.21	4.04	3.75	4.23

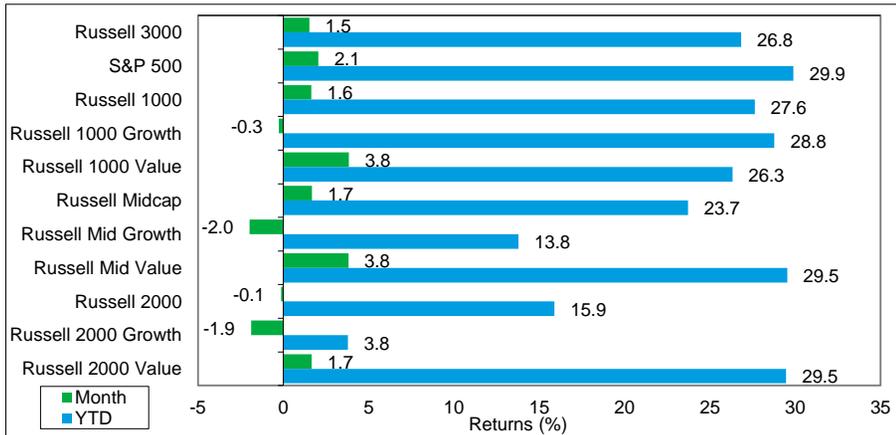
UK Bonds	31/12/2021	30/9/2021	30/6/2021	31/3/2021
SONIA	0.19	0.05	0.05	0.05
10 year gilt yield	0.97	1.02	0.75	0.88
30 year gilt yield	1.13	1.36	1.21	1.37
10 year index linked gilt yield	-2.95	-2.77	-2.63	-2.59
30 year index linked gilt yield	-2.27	-2.10	-2.05	-1.92
AA corporate bond yield	1.46	1.29	1.16	1.27
A corporate bond yield	1.68	1.56	1.40	1.51
BBB corporate bond yield	2.16	1.99	1.81	1.96

Source: Bloomberg, Thomson Reuters Datastream

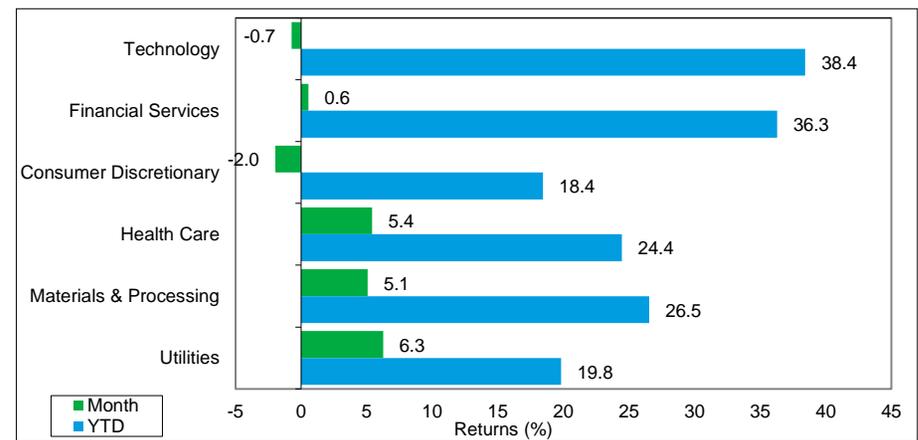
Performance Summary

Style and sector equity performance ending 31 December 2021

Style and Capitalisation Market Performance



Russell 1000 Sector Performance



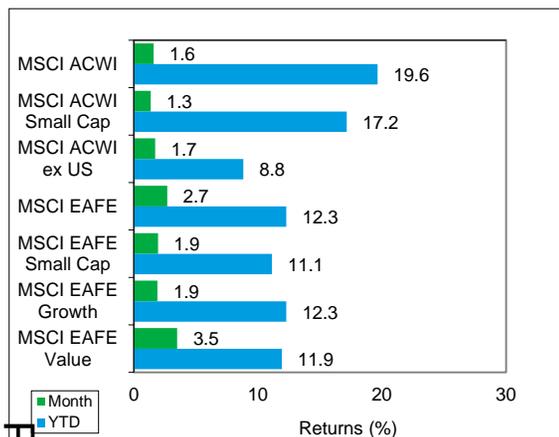
Index	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2020	2019	2018	2017	2016
S&P 500	2.1	10.5	29.9	29.9	22.1	23.5	16.3	17.3	18.2	9.9	14.7	26.4	1.6	11.3	33.5
Russell 3000	1.5	8.8	26.8	26.8	21.9	23.2	15.8	16.9	17.9	10.1	17.2	26.0	0.6	10.6	34.5
Russell 3000 Growth	-0.4	10.4	27.0	27.0	30.5	30.5	22.3	21.4	21.0	11.2	34.0	30.6	4.0	18.4	28.1
Russell 3000 Value	3.7	7.1	26.5	26.5	12.3	15.3	9.0	11.9	14.5	8.8	-0.3	21.4	-2.9	3.4	41.2
Russell 1000	1.6	9.3	27.6	27.6	22.3	23.6	16.3	17.2	18.2	10.1	17.2	26.4	1.1	11.2	33.7
Russell 1000 Growth	-0.3	11.1	28.8	28.8	31.5	31.4	23.0	22.0	21.4	11.3	34.2	31.1	4.6	18.9	27.7
Russell 1000 Value	3.8	7.3	26.3	26.3	12.2	15.3	9.1	12.0	14.5	8.7	-0.4	21.7	-2.6	3.8	40.0
Russell Midcap	1.7	6.0	23.7	23.7	18.5	20.8	13.0	14.5	16.5	11.3	13.5	25.5	-3.4	8.3	35.7
Russell Mid Growth	-2.0	2.4	13.8	13.8	22.3	24.9	17.6	17.3	18.2	11.2	31.4	30.2	1.2	14.4	28.0
Russell Mid Value	3.8	8.0	29.5	29.5	14.8	17.2	9.2	12.2	15.0	10.9	1.7	22.2	-6.8	3.5	43.1
Russell 2500	0.9	3.4	19.3	19.3	17.8	19.4	11.7	14.0	15.7	10.7	16.3	22.8	-4.4	6.7	40.3
Russell 2500 Growth	-1.8	-0.3	6.0	6.0	20.1	22.6	15.5	16.1	17.4	10.8	36.1	27.5	-1.7	13.7	30.9
Russell 2500 Value	2.8	5.9	29.0	29.0	14.5	15.9	7.9	11.8	14.0	10.2	1.6	18.8	-6.9	0.8	49.3
Russell 2000	-0.1	1.7	15.9	15.9	16.1	17.6	10.0	13.0	14.8	9.8	16.3	20.7	-5.5	4.7	44.7
Russell 2000 Growth	-1.9	-0.4	3.8	3.8	16.4	18.7	12.4	13.9	15.7	9.6	30.5	23.5	-3.7	11.6	32.8
Russell 2000 Value	1.7	3.9	29.5	29.5	14.6	15.6	7.1	11.7	13.6	9.6	1.4	17.7	-7.4	-1.5	57.1
Russell 1000 Technology	-0.7	13.7	38.4	38.4	40.3	40.7	29.9	27.7	25.3	13.1	42.2	41.5	4.9	26.4	36.1
Russell 1000 Financial Services	0.6	4.9	36.3	36.3	19.0	22.1	14.6	16.6	19.1	7.4	3.9	28.6	-2.4	11.0	39.0
Russell 1000 Consumer Discretionary	-2.0	8.2	18.4	18.4	28.1	26.8	19.6	19.6	21.1	11.8	38.5	24.2	6.1	13.4	26.8
Russell 1000 Health Care	5.4	8.6	24.4	24.4	18.8	18.1	15.8	15.4	19.3	10.4	13.4	16.8	13.2	11.5	15.8
Russell 1000 Energy	-1.0	7.3	52.7	52.7	1.2	2.9	-3.1	0.7	2.3	6.1	-33.0	6.5	-13.5	-9.7	50.2
Russell 1000 Producer Durables	4.0	5.0	17.2	17.2	12.7	16.9	10.7	13.7	16.0	9.3	8.4	25.7	-6.9	12.1	42.4
Russell 1000 Materials & Processing	5.1	12.8	26.5	26.5	20.1	20.6	12.0	13.8	14.3	9.8	13.9	21.6	-11.1	13.1	43.1
Russell 1000 Consumer Staples	9.0	12.0	19.3	19.3	11.3	13.9	7.3	10.8	12.9	10.4	3.8	19.3	-4.1	0.3	25.9
Russell 1000 Utilities	6.3	12.2	19.8	19.8	7.7	12.0	7.7	11.6	12.0	7.5	-3.2	21.3	6.1	-3.0	43.6

Data Source: Thomson Reuters Datastream

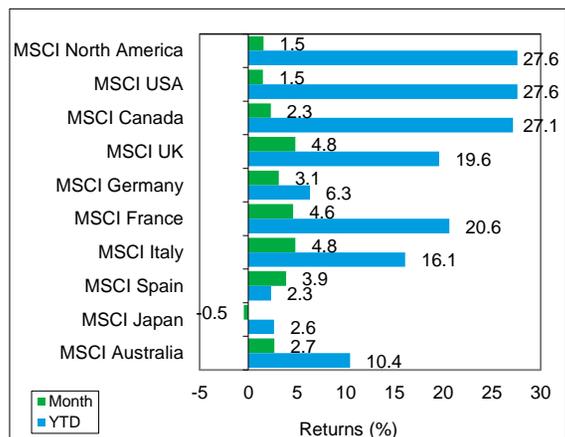
Performance Summary

Global equity ending 31 December 2021

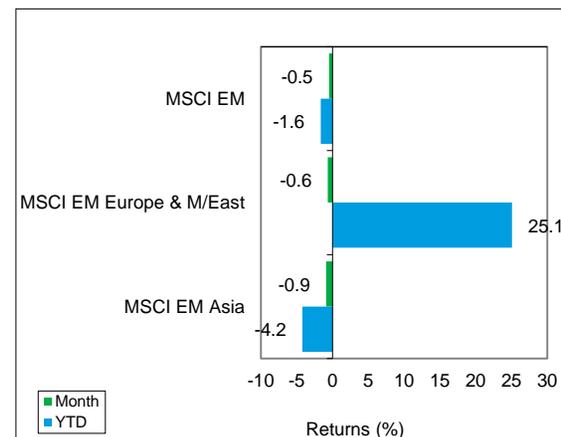
International Equity Performance



Developed Country Performance



Emerging Market Performance



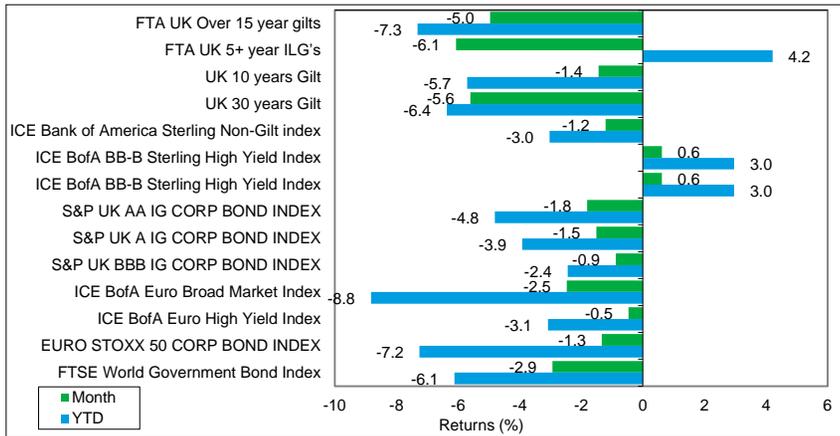
Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2020	2019	2018	2017	2016
MSCI ACWI	1.6	6.2	19.6	19.6	16.1	17.9	12.3	13.2	13.4	8.4	12.7	21.7	-3.8	13.2	28.7
MSCI ACWI IMI	1.6	5.7	19.8	19.8	16.5	18.3	12.6	13.6	14.0	9.3	13.2	22.1	-4.0	13.8	30.0
MSCI ACWI Small Cap	1.3	1.7	17.2	17.2	14.9	16.5	10.2	12.4	13.3	10.7	12.7	19.8	-9.1	13.1	33.1
MSCI ACWI ex US	1.7	1.4	8.8	8.8	8.0	10.9	7.6	8.7	8.8	7.2	7.2	16.8	-8.9	16.2	24.6
MSCI EAFE	2.7	2.2	12.3	12.3	8.3	11.2	7.6	8.9	9.5	6.7	4.5	17.3	-8.4	14.2	20.5
MSCI EAFE Growth	1.9	3.6	12.3	12.3	13.5	16.5	11.5	11.9	11.6	7.5	14.6	23.0	-7.4	17.7	15.6
MSCI EAFE Value	3.5	0.7	11.9	11.9	2.8	5.6	3.4	5.8	7.3	5.8	-5.6	11.6	-9.5	10.9	25.3
EM	-0.5	-1.8	-1.6	-1.6	6.2	8.7	7.9	8.3	6.9	10.0	14.7	13.8	-9.3	25.4	32.6
North America	1.5	9.4	27.6	27.6	21.8	23.1	15.6	16.3	16.9	9.3	16.2	25.7	0.1	10.4	33.1
Europe	4.1	5.2	17.4	17.4	9.5	12.6	8.1	8.8	9.7	6.6	2.1	19.0	-9.6	14.6	18.8
EM Europe & M/East	-0.6	-3.5	25.1	25.1	5.8	8.7	5.8	8.2	3.9	7.0	-10.4	14.6	-2.2	5.8	45.8
EM Asia	-0.9	-1.4	-4.2	-4.2	9.2	11.0	9.9	9.9	9.6	10.4	24.4	14.6	-10.2	30.5	26.6
Latin America	3.5	-3.1	-7.2	-7.2	-12.0	-4.4	-0.4	1.6	-0.8	8.1	-16.5	12.9	-0.8	13.0	56.3
USA	1.5	9.5	27.6	27.6	22.2	23.4	16.0	16.7	17.6	9.4	17.0	25.8	0.9	10.7	32.3
Canada	2.3	6.7	27.1	27.1	13.9	16.7	8.2	8.5	7.5	8.9	2.1	22.6	-12.1	6.0	48.6
Australia	2.7	1.6	10.4	10.4	7.9	11.2	7.1	8.6	8.1	10.1	5.4	18.2	-6.5	9.6	32.9
UK	4.8	5.1	19.6	19.6	1.9	6.5	4.2	5.3	6.5	5.3	-13.2	16.4	-8.8	11.7	19.2
Germany	3.1	0.4	6.3	6.3	7.2	10.1	5.2	7.3	9.7	6.7	8.1	16.1	-17.3	16.6	22.6
France	4.6	6.6	20.6	20.6	10.3	13.7	9.9	11.3	11.3	6.6	0.9	20.9	-7.3	17.6	25.1
Italy	4.8	5.1	16.1	16.1	7.0	11.9	7.5	7.5	7.3	3.3	-1.3	22.4	-12.6	17.3	6.8
Spain	3.9	-1.9	2.3	2.3	-2.8	0.6	1.0	1.5	3.6	4.9	-7.7	7.7	-11.0	16.0	18.1
Japan	-0.5	-4.4	2.6	2.6	6.7	9.4	6.5	10.0	9.8	6.0	10.9	15.0	-7.5	13.3	22.1
Brazil	1.9	-6.9	-16.6	-16.6	-19.1	-7.4	-1.0	2.3	-1.7	8.8	-21.5	21.4	5.7	13.4	98.3
China	-5.4	-6.5	-21.0	-21.0	-0.4	5.6	7.4	7.6	8.7	11.5	25.5	18.7	-13.8	40.7	20.4
India	1.3	-0.7	27.4	27.4	19.4	13.8	13.0	11.6	12.4	13.9	12.0	3.4	-1.5	26.7	17.6
Russia	-4.6	-9.6	20.1	20.1	0.9	13.9	8.5	17.3	6.5	9.7	-15.2	45.1	5.8	-3.9	84.7

Data Source: Thomson Reuters Datastream

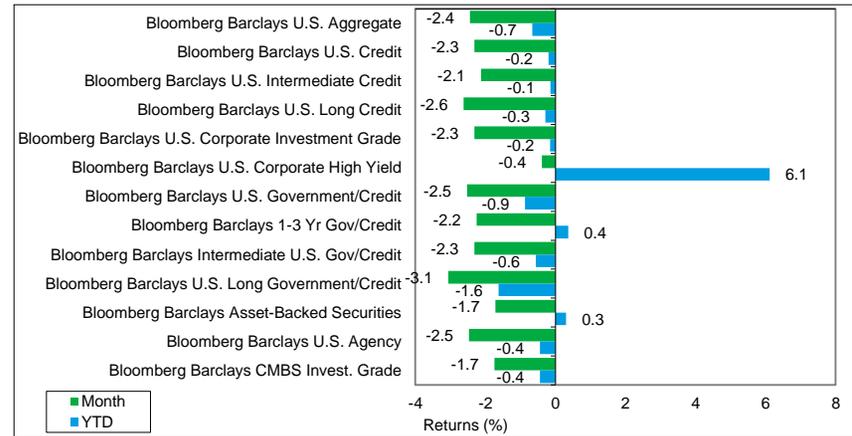
Performance Summary

Fixed Income ending 31 December 2021

Bond Performance by Duration



Sector, Credit, and Global Bond Performance



Page 31

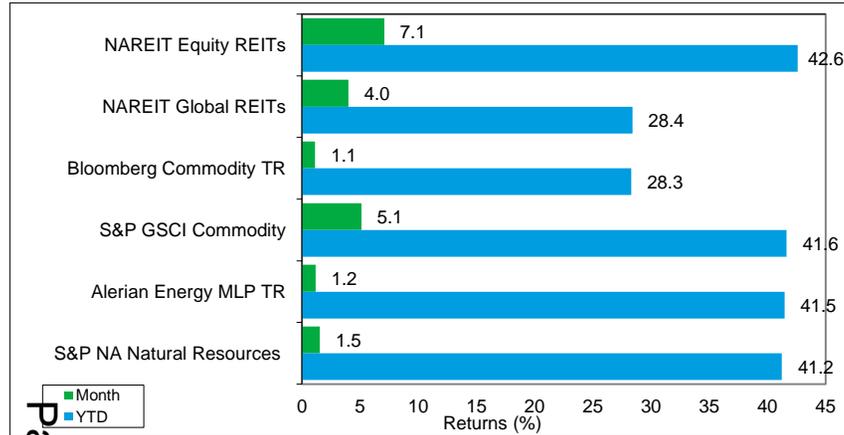
Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2020	2019	2018	2017	2016
FTA UK Over 15 year Gilts	-5.0	5.6	-7.3	-7.3	2.7	5.7	4.1	5.5	5.9	6.6	13.9	12.0	0.3	3.3	18.5
FTA UK 5+ year ILG's	-6.1	5.4	4.2	4.2	8.2	7.7	5.0	7.0	7.0	7.8	12.4	6.8	-0.4	2.5	27.4
UK 10 years Gilt	-1.4	0.7	-5.7	-5.7	0.3	1.9	2.1	2.9	3.2	5.3	6.6	5.2	2.0	2.7	9.3
UK 30 years Gilt	-5.6	5.3	-6.4	-6.4	3.2	6.0	4.3	5.4	5.9	6.7	13.8	11.7	0.4	3.1	17.7
ICE Bank of America Sterling Non-Gilt index	-1.2	0.4	-3.0	-3.0	2.3	4.6	3.3	3.9	5.3	5.5	8.0	9.5	-1.6	4.3	10.6
ICE BofA BB-B Sterling High Yield Index	0.6	-0.6	3.0	3.0	4.5	7.5	5.8	6.4	9.5	10.1	6.1	13.8	-1.4	8.2	10.5
S&P UK AA IG CORP BOND INDEX	-1.8	0.6	-4.8	-4.8	1.3	3.3	2.5	3.6	4.5	5.2	7.7	7.3	-0.3	3.2	12.7
S&P UK A IG CORP BOND INDEX	-1.5	0.8	-3.9	-3.9	2.1	4.8	3.2	4.1	5.5	5.6	8.4	10.4	-1.5	3.6	12.6
S&P UK BBB IG CORP BOND INDEX	-0.9	0.2	-2.4	-2.4	3.0	5.8	4.0	4.5	6.1	6.3	8.7	11.6	-2.6	5.5	11.3
ICE BofA Euro Broad Market Index	-2.5	-2.8	-8.8	-8.8	0.1	0.1	1.3	2.9	3.7	5.8	9.9	0.1	1.6	4.7	19.7
ICE BofA Euro High Yield Index	-0.5	-2.7	-3.1	-3.1	2.6	3.4	3.6	5.4	7.1	9.0	8.6	5.1	-2.5	11.0	26.3
EURO STOXX 50 CORP BOND INDEX	-1.3	-2.8	-7.2	-7.2	0.3	-0.1	1.0	2.6	3.2	--	8.5	-0.9	0.1	5.5	19.5
FTSE World Government Bond Index	-2.9	-1.5	-6.1	-6.1	0.1	0.7	1.1	3.9	2.4	1.3	6.7	1.8	5.3	-1.8	21.2
Bloomberg Barclays U.S. Aggregate	-2.4	-0.4	-0.7	-0.7	1.8	2.7	1.7	4.9	4.2	4.6	4.3	4.6	5.8	-4.9	20.9
Bloomberg Barclays U.S. Credit	-2.3	-0.2	-0.2	-0.2	2.9	5.0	3.2	6.2	5.7	5.6	6.0	9.4	3.7	-2.7	24.8
Bloomberg Barclays U.S. Intermediate Credit	-2.1	-1.0	-0.1	-0.1	1.8	3.0	1.9	5.3	4.8	4.9	3.8	5.4	5.9	-4.9	22.5
Bloomberg Barclays U.S. Long Credit	-2.6	1.1	-0.3	-0.3	4.6	9.1	5.7	8.2	7.8	7.5	9.8	18.6	-1.1	2.7	30.5
Bloomberg Barclays U.S. Corporate Investment Grade	-2.3	-0.2	-0.2	-0.2	3.1	5.4	3.4	6.5	6.0	5.8	6.5	10.2	3.3	-2.5	25.4
Bloomberg Barclays U.S. Corporate High Yield	-0.4	0.3	6.1	6.1	5.0	6.6	4.4	8.0	8.0	7.9	3.9	10.0	3.6	-1.3	37.3
Bloomberg Barclays U.S. Government/Credit	-2.5	-0.2	-0.9	-0.9	2.3	3.4	2.1	5.2	4.4	4.7	5.6	5.6	5.4	-4.6	21.6
Bloomberg Barclays 1-3 Yr Gov/Credit	-2.2	-1.0	0.4	0.4	0.4	0.3	0.1	3.4	2.6	2.7	0.4	0.3	7.2	-7.1	18.5
Bloomberg Barclays Intermediate U.S. Gov/Credit	-2.3	-1.0	-0.6	-0.6	1.3	1.8	1.1	4.4	3.6	4.0	3.2	2.8	6.7	-6.2	20.3
Bloomberg Barclays U.S. Long Government/Credit	-3.1	1.7	-1.6	-1.6	5.2	8.4	5.4	7.7	7.1	7.4	12.5	15.0	1.1	1.4	26.3
Bloomberg Barclays CMBS Invest. Grade	-1.7	-0.9	-0.4	-0.4	2.3	3.2	2.3	4.2	4.1	4.4	5.2	4.9	4.7	-2.7	14.9
Bloomberg Barclays U.S. Mortgage Backed Securities	-2.3	-0.8	-0.2	-0.2	0.3	1.0	0.7	4.1	3.5	4.2	0.8	2.4	6.9	-5.9	19.8
Bloomberg Barclays Municipal Bond	-1.9	0.3	2.3	2.3	2.2	2.7	2.4	5.2	4.8	4.6	2.2	3.6	6.8	-2.8	17.1

Data Source: Thomson Reuters Datastream

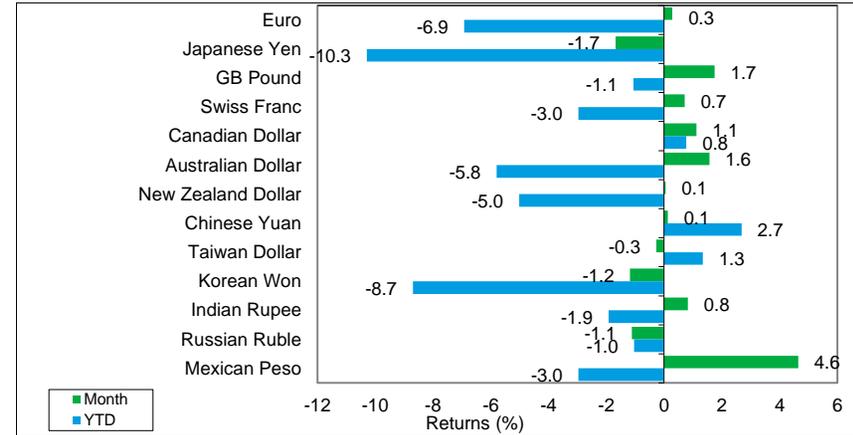
Performance summary

Alternatives ending 31 December 2021

Real Asset Performance



Performance of Foreign Currencies versus the US Dollar



Page 32

Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2020	2019	2018	2017	2016
NAREIT Equity REITs	7.1	15.6	42.6	42.6	14.5	17.5	10.4	12.7	13.8	11.6	-8.1	23.7	1.9	-0.7	29.6
NAREIT Global REITs	4.0	9.9	28.4	28.4	6.9	10.6	6.8	9.1	11.1	10.0	-11.0	18.3	1.2	1.8	25.2
Bloomberg Commodity TR	1.1	-2.0	28.3	28.3	9.7	7.6	1.8	2.1	-1.5	2.1	-6.1	3.5	-5.7	-7.1	33.3
S&P GSCI Commodity	5.1	1.1	41.6	41.6	2.3	5.8	0.9	-0.2	-4.2	0.3	-26.1	13.1	-8.5	-3.4	32.8
Alerian Energy MLP TR	1.2	0.1	41.5	41.5	-1.1	0.1	-4.5	-3.1	1.1	7.7	-30.9	2.4	-7.0	-14.6	41.1
Oil	11.0	-0.2	56.4	56.4	9.8	15.9	5.0	7.2	-1.3	7.3	-23.0	29.3	-20.2	2.7	73.0
Gold	0.5	3.6	-2.6	-2.6	8.4	10.3	7.7	8.6	3.0	10.3	20.6	14.3	3.9	3.8	29.6
S&P NA Natural Resources	1.5	7.6	41.2	41.2	5.3	7.8	-0.6	2.8	2.7	6.4	-21.5	13.1	-16.2	-7.5	56.1
Euro	0.3	-1.8	-6.9	-6.9	0.7	-0.3	1.6	-0.9	-1.3	1.2	8.9	-2.3	-4.4	14.1	-3.2
Japanese Yen	-1.7	-3.3	-10.3	-10.3	-2.9	-1.6	0.3	0.6	-3.9	0.6	5.2	0.9	2.8	3.7	2.9
GB Pound	1.7	0.4	-1.1	-1.1	1.0	2.0	1.9	-2.0	-1.4	-0.4	3.1	3.9	-5.6	9.5	-16.3
Swiss Franc	0.7	2.1	-3.0	-3.0	3.0	2.5	2.2	1.2	0.3	3.0	9.3	1.4	-0.7	4.5	-1.6
Canadian Dollar	1.1	0.3	0.8	0.8	1.4	2.6	1.2	-1.2	-2.1	1.2	2.0	5.0	-7.8	6.8	3.0
Australian Dollar	1.6	0.7	-5.8	-5.8	1.8	0.9	0.1	-1.7	-3.3	1.8	9.9	-0.7	-9.5	7.8	-1.0
New Zealand Dollar	0.1	-1.1	-5.0	-5.0	0.7	0.5	-0.4	-1.9	-1.3	2.5	6.6	0.3	-5.2	2.0	1.7
Chinese Yuan	0.1	1.4	2.7	2.7	4.7	2.7	1.8	-0.3	-0.1	1.3	6.7	-1.2	-5.4	6.7	-6.5
Taiwan Dollar	-0.3	0.4	1.3	1.3	3.9	3.3	3.2	1.9	0.9	1.2	6.5	2.2	-3.0	9.4	1.1
Korean Won	-1.2	0.0	-8.7	-8.7	-1.7	-2.3	0.2	-1.1	-0.2	0.5	5.7	-3.3	-4.3	13.3	-2.4
Indian Rupee	0.8	-0.4	-1.9	-1.9	-2.1	-2.2	-1.8	-2.4	-3.3	-2.1	-2.3	-2.5	-8.2	6.4	-2.6
Russian Ruble	-1.1	-2.8	-1.0	-1.0	-9.0	-2.3	-3.9	-3.5	-8.1	-4.4	-16.3	12.6	-17.3	6.4	19.0
Brazilian Real	1.0	-2.3	-6.8	-6.8	-15.1	-11.4	-10.2	-10.0	-10.4	-4.3	-22.6	-3.4	-14.7	-1.7	21.7
Mexican Peso	4.6	0.7	-3.0	-3.0	-3.9	-1.4	0.2	-4.6	-3.8	-3.9	-4.8	3.8	0.0	5.5	-17.1
BofA ML All Convertibles	-2.0	-0.3	7.6	7.6	23.5	21.8	14.8	15.2	15.5	9.7	41.7	18.4	6.4	3.9	32.1
60%S&P 500/40% Barc Agg	0.3	6.2	17.7	17.7	14.0	15.2	10.5	12.3	12.6	7.8	10.6	17.7	3.3	4.8	28.5

Data Source: Thomson Reuters Datastream

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Clwyd Pension Fund Monitoring Report Quarter to 31 December 2021

Kieran Harkin

January 2022



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- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- **The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer’s opinion, rather than fact.**
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

Kieran Harkin

Contents

	Overview	1
	Strategy Monitoring	3
	Investment Manager Summary	7
	Appendix	12

Overview



Executive Dashboard

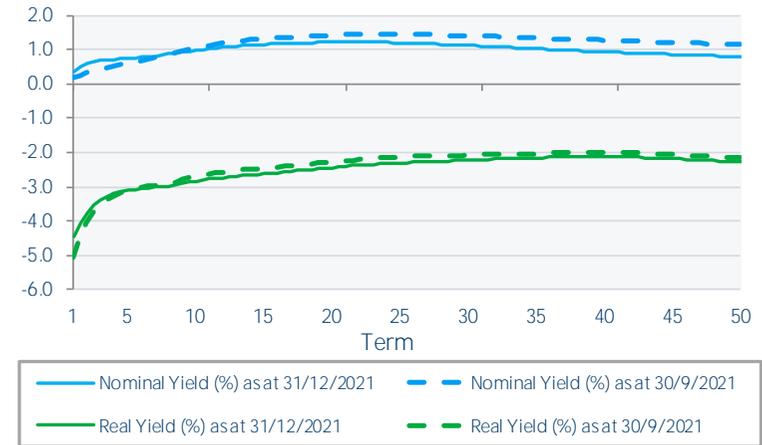
Page 39

Page 5	Asset Allocation		Page 9	Investment Performance	
<p>Assets are broadly in line with their strategic target weights. Cash and Risk Management Framework remains slightly overweight (+3.9%), but within range. Total Private Markets continues to be underweight (-3.8%), largely due to the underweight allocation to Infrastructure, which is outside its guideline range, and underweight allocation to Local/Impact and Private Credit.</p>	<p>Signal Previous Qtr  Current Qtr </p>	<p>The Fund returned 4.7% over the quarter against a benchmark of 4.2%. Over the 1 year and 3 year periods to 31 December 2021, the Fund returned 17.7% and 11.9% p.a. against a benchmark of 13.2% and 10.4% p.a., respectively.</p>	<p>Signal Previous Qtr  Current Qtr </p>		
<p>Asset Allocation Infrastructure within private markets portfolio is outside its guideline range. Plans are in place to bring Private Markets closer to target weights.</p>			<p>Performance vs Benchmark One year and three year performance is ahead of the strategic target and the actuarial past service and future service liabilities targets.</p>		
Page 10	Manager Research		Additional Comments		
<p>No significant news to report over the quarter.</p>	<p>Signal Previous Qtr  Current Qtr </p>	<p>Over the quarter the transition of the Fund’s Emerging Market equities into the Wales Pension Partnership (WPP) Emerging Markets equity fund was completed. The funds objective is to outperform the MSCI Emerging Markets Index by 1.5% p.a.</p>			

Market Conditions

Change in Yields	Yields at (%)		Change in Yields (%)		
	31 Dec 21	30 Sep 21	3 Months	12 Months	3 Year
Over 5 Year Index-Linked Gilts	-2.36	-2.21	-0.15	-0.18	-0.78
Over 15 Year Fixed Interest Gilts	1.09	1.33	-0.24	0.42	-0.66
Over 10 Year Non-Gilts	2.35	2.43	-0.07	0.55	-1.01

Exchange Rates	£1 is worth		£ Appreciation		
	31 Dec 21	30 Sep 21	3 Months (%)	12 Months (%)	3 Years (% p.a.)
US Dollar (\$)	1.354	1.348	0.5	-0.9	2.1
Euro (€)	1.191	1.163	2.4	6.6	2.3
100 Japanese Yen (¥)	1.560	1.504	3.7	10.5	3.7



Page 40



Source: Refinitiv. Returns are shown in Sterling if the investment is generally expected to be on a non-currency hedged basis. Where non-Sterling exposure is expected to be hedged, returns are shown in local currency terms. Local currency returns are an approximation of a currency hedged return. LC: Local Currency; HC: Hard Currency.

Strategy Monitoring

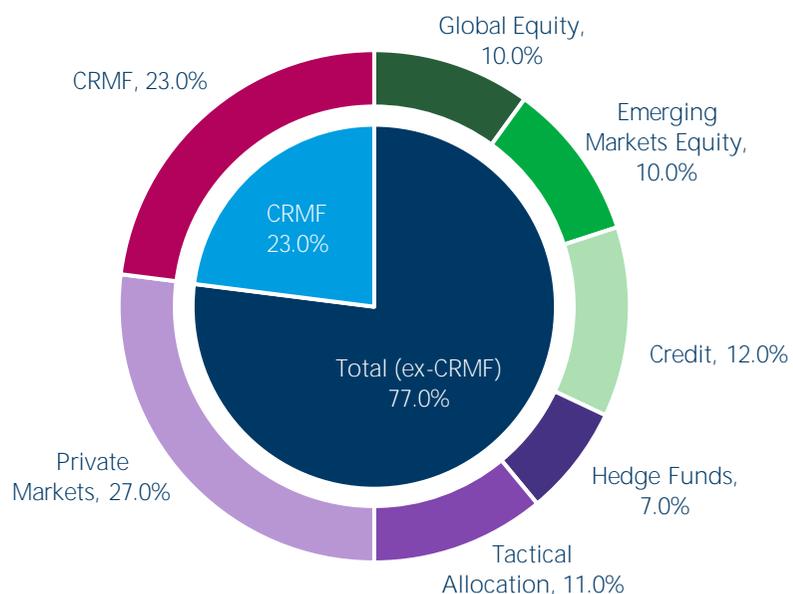


Asset Allocation

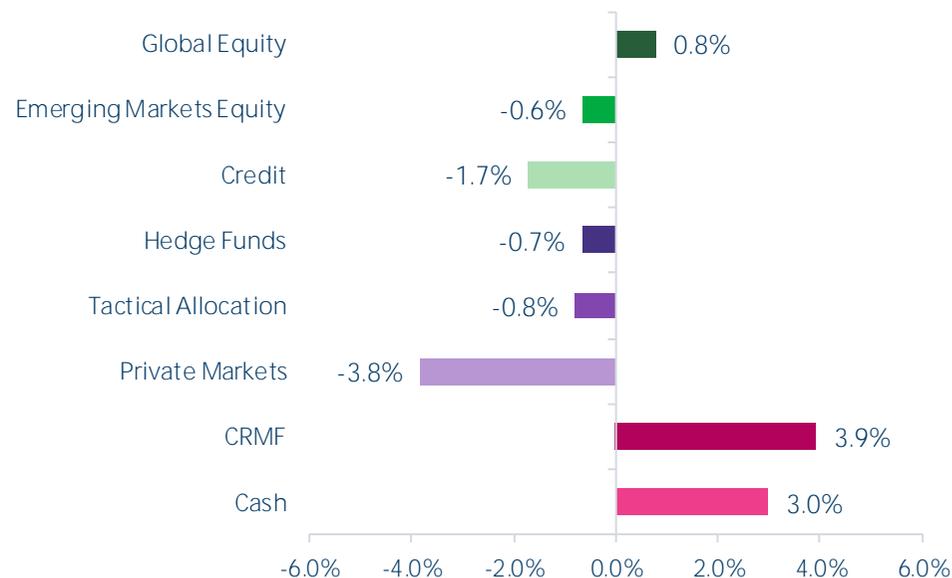
	30/09/2021 Market Value (£M)	Net Cash Flow (£M)	Investment Growth/ Decline (£M)	31/12/2021 Market Value (£M)	30/09/2021 Allocation (%)	31/12/2021 Allocation (%)	31/12/2021 B'mark (%)	31/12/2021 B'mark Range (%)
Total	2,382.6	-7.9	109.9	2,484.6	100.0	100.0	100.0	--
Total (ex-CRMF)	1,714.9	-18.3	45.5	1,742.1	72.0	70.1	77.0	--
Total CRMF	604.2	--	64.5	668.6	25.4	26.9	23.0	10.0 - 35.0
Cash	63.5	10.5	0.0	73.9	2.7	3.0	0.0	0.0 - 5.0

Source: Investment Managers and Mercer.
 Figures may not sum to total due to rounding.

Benchmark Asset Allocation as at 31 December 2021



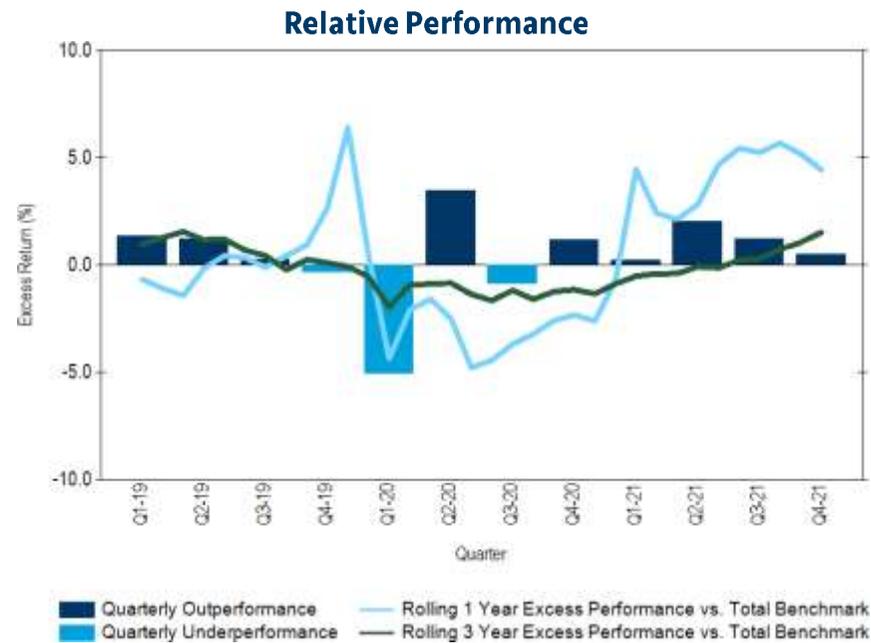
Deviation from Benchmark Asset Allocation



Investment Performance

	2021 Q4 (%)	1 Yr (%)	3 Yrs (%)
Total	4.7	17.7	11.9
Total Benchmark	4.2	13.2	10.4
Strategic Target (CPI +3.4% p.a.)	1.3	5.5	5.5
Actuarial Target - Past Service Liabilities (CPI +1.75% p.a.)	0.9	3.8	3.8
Actuarial Target - Future Service Liabilities (CPI + 2.25% p.a.)	1.1	4.3	4.3

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Refinitiv. Strategic and Actuarial targets are derived from Mercer’s Market Forecasting Group assumptions (based on conditions at 31 December 2019). Current 10-year CPI assumption: 2.1% p.a. For periods over one year the figures in the table above have been annualised.



Investment Manager Summary



Manager Allocation

	Investment Manager	30/09/2021 Market Value (£M)	Net Cash Flow (£M)	Investment Growth/ Decline (£M)	31/12/2021 Market Value (£M)	30/09/2021 Allocation (%)	31/12/2021 Allocation (%)	31/12/2021 B'mark (%)	31/12/2021 B'mark Range (%)
Total		2,382.6	-7.9	109.9	2,484.6	100.0	100.0	100.0	--
Total (ex-CRMF)		1,714.9	-18.3	45.5	1,742.1	72.0	70.1	77.0	--
Total Equity		481.2	10.2	8.7	500.1	20.2	20.1	20.0	10.0 - 30.0
Global Equity		252.5	--	15.2	267.7	10.6	10.8	10.0	5.0 - 15.0
WPP Global Opportunities	Russell	125.0	--	6.5	131.6	5.2	5.3	5.0	5.0 - 15.0
World ESG Equity	BlackRock	127.5	--	8.7	136.1	5.3	5.5	5.0	5.0 - 15.0
Emerging Markets Equity		228.7	10.2	-6.4	232.4	9.6	9.4	10.0	5.0 - 15.0
Emerging Markets (Core)	Wellington	77.3	-77.6	0.4	--	3.2	--	--	--
Emerging Markets (Local)	Wellington	69.8	-69.7	-0.1	--	2.9	--	--	--
Emerging Markets Equity	BlackRock	81.5	-82.4	0.9	--	3.4	--	--	--
Emerging Markets Equity	Russell	--	240.0	-7.6	232.4	--	9.4	10.0	5.0 - 15.0
Total Credit		255.9	--	-0.3	255.6	10.7	10.3	12.0	10.0 - 14.0
WPP Multi-Asset Credit	Russell	255.9	--	-0.3	255.6	10.7	10.3	12.0	10.0 - 14.0
Total Hedge Funds		153.6	--	3.7	157.3	6.4	6.3	7.0	5.0 - 9.0
Hedge Funds	Man	153.5	--	3.7	157.3	6.4	6.3	7.0	5.0 - 9.0
Total Tactical Allocation		246.6	--	6.8	253.4	10.4	10.2	11.0	9.0 - 13.0
Best Ideas	Various	246.6	--	6.8	253.4	10.4	10.2	11.0	9.0 - 13.0
Total Private Markets		577.7	-28.5	26.5	575.7	24.2	23.2	27.0	15.0 - 37.0
Property	Various	135.5	-0.8	6.4	141.2	5.7	5.7	4.0	2.0 - 6.0
Private Equity	Various	197.4	-13.0	8.3	192.7	8.3	7.8	8.0	6.0 - 10.0
Local / Impact	Various	67.0	-6.2	5.4	66.2	2.8	2.7	4.0	0.0 - 6.0
Infrastructure	Various	115.0	-7.0	3.8	111.8	4.8	4.5	8.0	6.0 - 10.0
Private Credit	Various	46.8	1.8	2.8	51.4	2.0	2.1	3.0	1.0 - 5.0
Timber/ Agriculture	Various	16.0	-3.4	-0.3	12.4	0.7	0.5	--	--
Total CRMF		604.2	--	64.5	668.6	25.4	26.9	23.0	10.0 - 35.0
Cash and Risk Management Framework (CRMF)	Insight	604.2	--	64.5	668.6	25.4	26.9	23.0	10.0 - 35.0

	Investment Manager	30/09/2021 Market Value (£M)	Net Cash Flow (£M)	Investment Growth/ Decline (£M)	31/12/2021 Market Value (£M)	30/09/2021 Allocation (%)	31/12/2021 Allocation (%)	31/12/2021 B'mark (%)	31/12/2021 B'mark Range (%)
Cash		63.5	10.5	0.0	73.9	2.7	3.0	0.0	0.0 - 5.0
Cash		63.5	10.5	0.0	73.9	2.7	3.0	0.0	0.0 - 5.0

Source: Investment Managers and Mercer. Figures may not sum to total due to rounding.

Net cashflows exclude the reinvestment of income.

Emerging Markets Core and Local valuations are converted from USD to GBP using closing price exchange rates. Hedged Funds (Legacy) valuation includes the Liongate portfolios.

Total Tactical Allocation includes fund balances and cash holdings held at month end for December.

Manager Performance

	Investment Manager	2021 Q4 (%)	B'mark (%)	1 Yr (%)	B'mark (%)	3 Yrs (%)	B'mark (%)
Total		4.7	4.2	17.7	13.2	11.9	10.4
Total Equity		1.6	3.0	8.9	11.1	13.5	15.2
WPP Global Opportunities	Russell	5.2	6.7	19.1	22.0	--	--
World ESG Equity	BlackRock	6.8	6.8	23.9	23.6	--	--
Emerging Markets Equity	Russell	-1.0	-2.8	--	--	--	--
Total Credit		-0.1	1.0	2.7	4.0	4.3	2.7
WPP Multi-Asset Credit	Russell	-0.1	1.0	2.3	4.0	--	--
Total Hedge Funds		2.4	0.9	8.6	3.5	4.5	4.0
Hedge Funds	Man	2.4	0.9	8.6	3.5	4.5	4.0
Total Tactical Allocation		3.8	3.1	16.4	7.6	10.9	5.2
Best Ideas	Various	3.8	3.1	16.4	7.6	12.2	5.2
Total Private Markets		4.6	2.3	22.4	7.4	9.6	5.5
Property	Various	4.8	7.9	9.1	19.9	6.3	6.6
Private Equity	Various	4.2	1.2	33.6	5.0	14.7	5.5
Local / Impact	Various	7.6	1.2	44.2	5.0	--	--
Infrastructure	Various	3.5	1.2	16.5	5.0	5.1	5.5
Private Credit	Various	5.9	1.8	17.4	7.5	4.0	7.5
Timber/ Agriculture	Various	-1.9	1.2	3.4	5.0	0.2	5.5
Total CRMF		10.7	10.7	33.6	33.6	21.1	21.1
Cash and Risk Management Framework (CRMF)	Insight	10.7	10.7	33.6	33.6	21.1	21.1

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Refinitiv.

For periods over one year the figures in the table above have been annualised.

Prior to 30 September 2020, performance for all portfolios and sub-totals/total was estimated based on MWRR approach.

Performance benchmark for WPP Global Opportunities and Wellington Emerging Markets portfolios include an outperformance target.

Performance for hedge funds, best ideas and private markets portfolios has been estimated by Mercer.

Private Credit benchmark was revised to Absolute Return 7.5% p.a. in Q4 2020 and for all preceding periods.

Russel Emerging Markets Equity performance shown since Inception to 31 December 2021. Inception date taken as at 20 October 2021.

Manager Ratings

Investment Manager	Asset Class	12m Perf	3yr Perf
Russell	WPP Global Opportunities	●	--
BlackRock	World ESG Equity	●	--
Russell	Emerging Markets Equity	--	--
Russell	WPP Multi-Asset Credit	●	--
Man	Hedge Funds	●	●
Various	Best Ideas	●	●
Various	Property	●	●
Various	Private Equity	●	●
Various	Local / Impact	●	--
Various	Infrastructure	●	●
Various	Private Credit	●	●
Various	Timber/ Agriculture	●	●
Insight	Cash and Risk Management Framework (CRMF)	●	●

Page 48

	Active Funds , Target Specified	Active Funds , Target Not Specified	Passive Funds
● Meets criteria	Target or above performance	Benchmark or above performance	Within tolerance range
● Partially meets criteria	Benchmark or above performance, but below target	--	--
● Does not meet criteria	Below benchmark performance	Below benchmark performance	Outside tolerance range
● Not applicable	--	--	--

Appendix



Appendix - Benchmarks

Name	Investment Manager	30/09/2021 B'mark (%)	31/12/2021 B'mark (%)	Performance Benchmark
Total		100.0	100.0	-
Total (ex-CRMF)		77.0	77.0	-
Total Equity		20.0	20.0	Composite Weighted Index
WPP Global Opportunities	Russell	5.0	5.0	MSCI AC World (NDR) Index +2.0% p.a.
World ESG Equity	BlackRock	5.0	5.0	MSCI World ESG Focus Low Carbon Screened Midday Index
Emerging Markets (Core)	Wellington	3.0	--	MSCI Emerging Markets Index +1.0% p.a.
Emerging Markets (Local)	Wellington	3.0	--	MSCI Emerging Markets Index +2.0% p.a.
Emerging Markets Equity	BlackRock	4.0	--	MSCI Emerging Markets Index
Emerging Markets Equity	Russell	--	10.0	MSCI Emerging Markets Index +1.5% p.a.
Total Credit		12.0	12.0	Composite Weighted Index
WPP Multi-Asset Credit	Russell	12.0	12.0	3 Month LIBOR Index +4.0% p.a.
Total Hedge Funds		7.0	7.0	3 Month LIBOR Index +3.5% p.a.
Hedge Funds	Man	7.0	7.0	3 Month LIBOR Index +3.5% p.a.
Total Tactical Allocation		11.0	11.0	UK Consumer Price Index +3.0% p.a.
Best Ideas	Various	11.0	11.0	UK Consumer Price Index +3.0% p.a.
Total Private Markets		27.0	27.0	Composite Weighted Index
Property	Various	4.0	4.0	MSCI UK Monthly Property Index
Private Equity	Various	8.0	8.0	3 Month Sterling LIBOR +5.0% p.a.
Local / Impact	Various	4.0	4.0	3 Month Sterling LIBOR +5.0% p.a.
Infrastructure	Various	8.0	8.0	3 Month Sterling LIBOR +5.0% p.a.
Private Credit	Various	3.0	3.0	Absolute Return +7.5% p.a.
Timber/ Agriculture	Various	--	--	3 Month Sterling LIBOR +5.0% p.a.
Total CRMF		23.0	23.0	Composite Liabilities & Synthetic Equity
Cash and Risk Management Framework (CRMF)	Insight	23.0	23.0	Composite Liabilities & Synthetic Equity

Figures may not sum to total due to rounding.

Performance benchmark for WPP Global Opportunities and Russell Emerging Markets portfolios include an outperformance target.

Private Credit benchmark was revised to Absolute Return 7.5% p.a. in Q4 2020 and for all preceding periods.

Cash & Risk Management Framework benchmark is assumed equal to fund performance for calculation purposes.



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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 9 th February 2022
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

This report provides the Committee with the estimated funding position at a recent date and details to enable the monitoring of the Risk Management Framework.

The estimated funding position at the end of December 2021 of 102% is around 9% ahead of the expected position from the 2019 actuarial valuation although uncertainty remains. The allowance for updated membership data and other experience factors from the interim funding review have been incorporated in the report.

The Head of Pensions and FRMG have developed a proposed governance process for the monitoring and implementation of the proposed 110% funding level de-risking trigger for agreement by the Committee.

The objectives and update on the various parts of the Risk Management Framework are included in the Appendix and shows the management of:

- Interest rate and inflation risk
- Equity market risk
- Currency risk
- Liquidity and collateral risk

The Head of Clwyd Pension Fund, under delegated powers, decided that the synthetic equity and equity protection strategy should be continued beyond 23 May 2021, and at that point a gain of c. £129m was crystallised, and the total gain since inception of the equity protection strategy to 31 December 2021 is c. £176m. The currency hedging positions have made a gain of £11.4m in total since inception to 31 December 2021 due to strengthening of sterling over that period. The strong performance of the flightpath has meant excess collateral can potentially be released and consideration is being given to how that will be utilised as part of future Private Market investments. It will continue to be held with Insight until a decision is made on how it is deployed

RECOMMENDATIONS

1	That the Committee note and consider the contents of the report.
2	That the Committee agree to the 110% funding level trigger and agree the funding level de-risking trigger process.

REPORT DETAILS

1.00	FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE
1.01	<p>Update on funding and the flightpath framework</p> <p>The monthly summary report as at 31 December 2021 from Mercer on the funding position and an overview of the risk management framework is attached in Appendix 1. It includes a “traffic light” of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principal objectives of the framework.</p>
1.02	<p>The estimated funding level is 102% at 31 December 2021, which is 9% ahead of the expected position when measured relative to the 2019 actuarial valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to the potential economic impact of the COVID-19 pandemic and other issues. This means that the likelihood of achieving the assumed discount rate/returns going forward may be reduced and need to be reflected in the assumptions at the 2022 actuarial valuation. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.98% with a corresponding decrease in surplus of £103m to a deficit of £47m.</p>
1.03	<p><i>Funding Level Trigger</i></p> <p>As discussed at previous Committee meetings, it is proposed that a funding level trigger of 110% should be put in place to prompt future FRMG de-risking discussions. The Committee is asked to approve this trigger.</p> <p>This funding level trigger been incorporated into the amended Investment Strategy Statement which is part of a separate agenda item. The funding level in the attached monitoring report is below this trigger currently but if breached, this would prompt further analysis on whether the Fund can take de-risking actions to provide more certainty for employers without inadvertently putting upwards pressure on contributions ahead of the 2022 actuarial valuation. This trigger will also be considered at the next FRMG in light of the outcome of the interim funding review.</p>
1.04	<p>Following discussions at the previous committee, it was agreed by the FRMG that a formal process should be formulated for the actions to be taken following a breach of the 110% funding level trigger. Currently the “Delegation of Functions to Officers by the Pension Fund Committee” provides that:</p> <p><i>“implementation of the agreed market Flightpath triggers and deciding action(s) to be taken when Flightpath funding triggers are reached within the existing constraints of the Investment Strategy.”</i></p> <p>is delegated to:</p> <p><i>“The Head of Clwyd Pension Fund (having regard to ongoing advice of the Investment consultant and Pension Advisory Panel).”</i></p> <p>subject to high level monitoring by the Pension Fund Committee.</p>

1.05	<p>The Head of Pensions and FRMG have proposed a process for the de-risking actions which allows engagement with the Pension Fund Committee whilst ensuring that action can be taken in a timely manner having regard to professional advice:</p> <p>The suggested process is as follows:</p> <ul style="list-style-type: none"> • The funding level be monitored daily using projected asset and liability values from the PFaroe platform. On breaching the 110% funding level, a notification will be sent to the FRMG via email on that or the following Business Day; • Mercer will then independently verify the asset and liability values over the following 10 Business Days (the length of this period reflects the timeframe to receive updated data from the Fund’s investment managers) to confirm that the 110% trigger has indeed been breached; • Mercer will conduct analysis of the funding position assuming that the trigger has been breached, and will circulate an advice note to the FRMG no later than 20 Business Days from the initial trigger notification; • The FRMG will hold a call within 25 Business Days of the trigger notification to discuss the advice note and any recommendation made by the Fund’s advisers to the FRMG. • The Head of Clwyd Pension Fund will then consider the advice received relating to de-risking, and will report via email their intended decision on this matter to the Pension Fund Committee; • The Committee will be invited to provide feedback over the following 5 Business Days and: <ul style="list-style-type: none"> ○ If, after receiving any comments, there are no outstanding issues for discussion (including where no comments have been received from the Committee) regarding the Head of Clwyd Pension Fund’s proposed decision, if the decision is to de-risk, the FRMG will liaise with investment managers to agree documentation and instructions in line with the agreed actions within 35 Business Days from the initial trigger notification. ○ However, if there are any issues highlighted by PFC members that require discussion, a special Committee meeting will be called to consider the issues and at that meeting the Committee will be asked whether or not to endorse the Head of Clwyd Pension Fund’s intended way forward (noting that this meeting will need to be scheduled as a matter of urgency). ○ Following a decision to go ahead with the de-risking actions, the FRMG will work with investment managers to implement the agreed de-risking activity, which will then be reported to Committee at the next regular meeting.
1.06	<p>The Committee is asked to review the process and confirm it is happy with the process being put in place. This process will then be added to the “Delegation of Functions to Officers by the Pension Fund Committee”.</p>

1.07	<p><i>Hedging</i></p> <p>The level of hedging was approximately 20% for interest rates and 40% for inflation at 30 September 2021. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield/return expectation to achieve the funding and contribution targets.</p>
1.08	<p>Triggers are in place to purchase additional interest rate or inflation hedging at an affordable level. Currently the cost to purchase gilts in order to further increase the hedging is felt too prohibitive at the current time and this also means that the higher interest rate triggers have not been breached since they were re-structured in September 2017. No inflation triggers have been breached since May 2020. In September 2020, the inflation hedge was rebalanced back to the current strategic target 40% from 20% to reduce the risk that inflation will increase due to central bank and government intervention in managing the COVID-19 pandemic and the related market volatility.</p>
1.09	<p>Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as “green” meaning it is operating in line within the tolerances monitored by Mercer who are also the Fund's strategic risk advisors.</p> <p>The Cash Plus Fund is rated “green” although underperforming since inception, the collateral waterfall outperformed over Q3 2021.</p> <p>Collateral is within the agreed constraints, and the efficiency of the collateral position has been improved following the implementation of a collateral waterfall framework with Insight. Overall, the collateral waterfall has generated an additional £9.6m return from inception at 31 January 2019 to 30 September 2021.</p> <p>No further action is therefore recommended at this point, although given the healthy collateral position, some of the excess has been earmarked to fund Private Market drawdowns as and when required (see 1.11 below) which is being considered further.</p>
1.10	<p>Update on Risk Management framework</p> <p>(i) <u>Synthetic equity and equity protection strategy</u></p> <p>The Fund gains exposure to equity markets via derivatives and protects this exposure against potential falls in the equity markets via the use of an equity protection strategy. This provides further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality.</p> <p>It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets. Importantly over the longer-term the increased security allows the Actuary to include less</p>

prudence in the Actuarial Valuation assumptions; this translated into lower deficit contributions at the 2019 valuation, whilst maintaining the equity exposure supports a lower cost of accrual than under traditional de-risking methods.

The Fund's synthetic equity and equity protection strategy is implemented through a Total Return Swap ("TRS") contract with JP Morgan, held within the Insight QIAIF (the fund that implements the risk management strategies on the Fund's behalf). The TRS contract is for a fixed term of 3 years, and was due to expire on 23 May 2021. The Head of Clwyd Pension Fund, advised by the FRMG, decided under delegated powers that it was appropriate to maintain this exposure, and therefore a new TRS contract was put in place for another 3 years. This reset the market value back to zero, crystallising the positive c. £129m gain (as at 23 May 2021) into the Insight QIAIF. Further, Mercer and the Officers were able to negotiate a 50% reduction (c. £1m p.a.) in the ongoing transaction costs with JP Morgan.

As at 31 December 2021, the total performance since inception of the synthetic equity and equity protection strategy in May 2018 was an increase of c. £176m. Relative to investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £63m since inception. The underperformance is largely driven by the rise in equity markets since inception of the strategy meaning the protection has become less valuable.

1.11 (ii) Collateral update

As at 30 September 2021 we estimate the collateral headroom (i.e the amount over and above the minimum immediate collateral of £140m) of c. £198m. The QIAIF has available immediate collateral (Tier 1 assets) of £338m. Insight would take action if Tier 1 collateral fell below £140m, and have discretion to take action if Tier 1 collateral falls below £170m. The action they would take would be to sell some of the Tier 2 assets (High Grade ABS and Global ABS) to top up the level Tier 1 collateral. These daily dealing Tier 2 funds have in total c. £155m as at 30 September 2021.

Given the strong collateral position and the increase in exposures within the QIAIF since the minimum level of collateral was set, the FRMG agreed to increase the minimum level of collateral by £10m from £140m to £150m. This would reduce the collateral headroom slightly. Further, the FRMG has extended the level at which Insight can take discretionary action to top up the Tier 1 assets by £20m, from £170m to £190m. The QIAIF would still have a very healthy collateral position following these changes.

The main reason for the healthy collateral position is the positive performance of the flightpath, with £100m of collateral earmarked for Private Market drawdowns.

Mercer is conducting further analysis to determine whether a portion of the available collateral within the QIAIF could be transferred to the High Grade ABS Fund (a Tier 2 fund) to generate a higher return whilst awaiting the Private Market drawdowns. Once the collateral analysis has been

	completed, this will be discussed at the FRMG meeting in February and implemented alongside the agreed revisions to the collateral structure.
1.12	<p>(iv) <u>Currency hedging gain</u></p> <p>The currency risk associated with the market value of the synthetic equity strategy is hedged and has made a loss of £1.1m since inception on 8 March 2019 to 31 December 2021 due to the weakening of sterling over that period.</p> <p>The Fund's overseas developed market physical equity holdings are currency hedged and has made an offsetting gain of c. £11.4m since inception of the strategy due to the strengthening of sterling over that period.</p> <p>Overall the action to hedge the Fund's developed equity currency risk has resulted in a gain of £10.3m since inception of the strategies.</p>

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None

4.00	RISK MANAGEMENT
4.01	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	<p>The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound which would be detrimental to the Fund's deficit. Hedging the currency risk of the developed market physical equity exposure will mitigate the risk of a strengthening pound.</p>

5.00	APPENDICES
5.01	Appendix 1 - Monthly monitoring report – December 2021

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<ul style="list-style-type: none"> • Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016. • Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) 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.</p> <p>(b) Administering Authority or Scheme Manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) The Committee – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.</p> <p>(d) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) FSS – Funding Strategy Statement – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(f) Actuary - A professional advisor, specialising in financial risk, who is appointed by Pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary’s primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.</p> <p>(g) ISS – Investment Strategy Statement The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund</p> <p>Further terms are defined in the Glossary in the report in Appendix 1.</p>

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Risk management framework

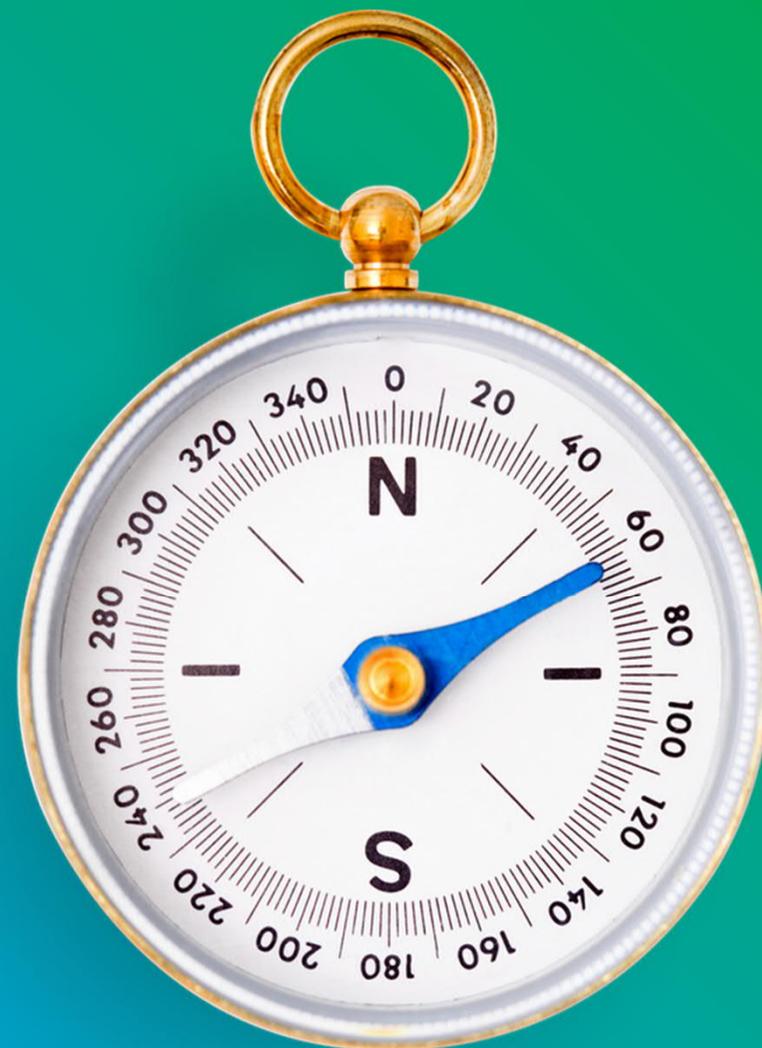
Monthly monitoring report: 31 December 2021

Page 61

Clwyd Pension Fund
January 2022

Nick Page FIA CERA

welcome to brighter



Overriding objectives

Page 62



Versus



Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

Executive summary

 = as per or above expectations
  = to be kept under review
  = action required



Overall funding position at 31 December 2021

- Ahead of existing recovery plan
- New funding level trigger introduced at 110%

The funding position is 102% which is ahead of the target by around 9%. There is continuing uncertainty in the outlook for future returns and inflation which could impact on the future funding requirements.



Liability hedging mandate at 30 September 2021

- Insight in compliance with investment guidelines
- Outperformed the benchmark marginally over Q3 2021

No triggers breached over Q3 2021.



Synthetic equity mandate at 30 September 2021

- Insight in compliance with investment guidelines
- Underperformed the benchmark over Q3 2021

A dynamic protection structure was implemented in late May 2018, with refinements made in November 2020. The TRS structure rolled on 23 May 2021 with no further changes to the strategy. No action required.



Currency hedging at 31 December 2021

- Currency hedging overlay implemented in the QIF in August 2019
- As at 31 December 2021, the market value of the currency hedge since inception on 22 August 2019 was £11.4m

No action required.

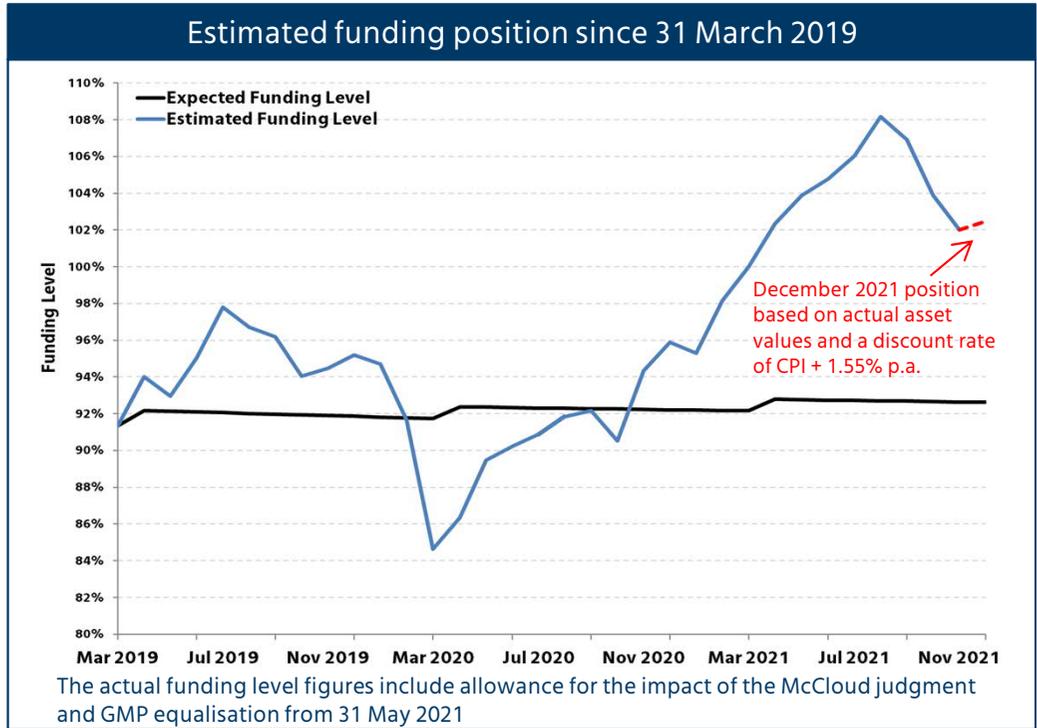


Cash Plus Funds, collateral and counterparty position at 30 September 2021

- The Cash Plus Fund has underperformed the benchmark since inception, but the collateral waterfall outperformed over Q3 2021. We will continue to monitor performance.
- The Insight QIF can sustain at least a 3.0% rise in interest rates or 1.8% fall in inflation without eliminating all headroom.

Overall, the collateral waterfall has returned £9.6m at 30 September 2021 since implementation at 31 January 2019 versus the previous structure. The Fund has sufficient collateral as at 30 September 2021. No action required.

Funding level monitoring to 31 December 2021



Comments

The **black line** shows a projection of the **expected** funding level from the 31 March 2019 valuation based on the assumptions (and contributions) outlined as part of the 2019 actuarial valuation. The expected funding level at 31 December 2021 was around 93%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2019 to 30 November 2021. The **red dashed line** shows the progression of the estimated funding level over December 2021. At 31 December, we estimate the funding level and surplus to be:

102% £56m*

From December 2021 we have incorporated *only the membership experience impact* of the 2021 interim funding review which has reduced the funding level by c2% in isolation. No other changes e.g. actuarial assumptions have been incorporated. The Fund’s position was ahead of the expected funding level at 31 December 2021 by around 9% on the current funding basis.

Uncertainty continues to be prevalent in the investment environment due to the potential economic impact of the COVID-19 pandemic. This means that the likelihood of achieving the assumed real returns at the last valuation has fallen. To illustrate the impact, a further reduction of 0.25% p.a. in the assumed future investment return/discount rate would reduce the funding level by c.4% to c.98% with a corresponding decrease in surplus of £103m to a deficit of £47m.

This will be kept under review in light of changing market conditions and the economic outlook.

Funding Level Triggers

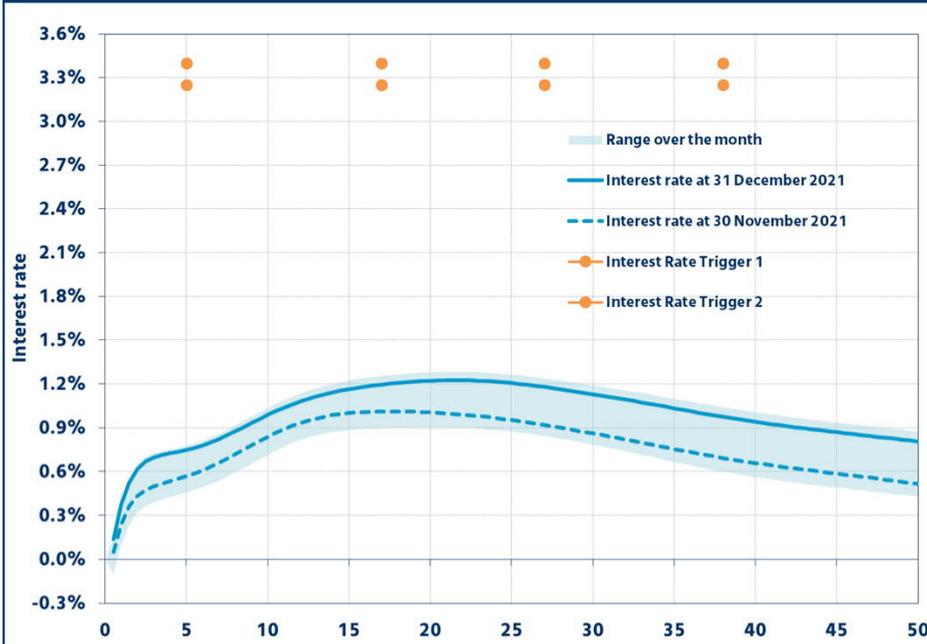
Following a breach of the 100% soft trigger, it was concluded at the FRMG on 9 July 2021 that the funding level was not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a new trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 110% on the equivalent to the 2019 valuation funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Update on market conditions and triggers

Page 65

Change in interest rates



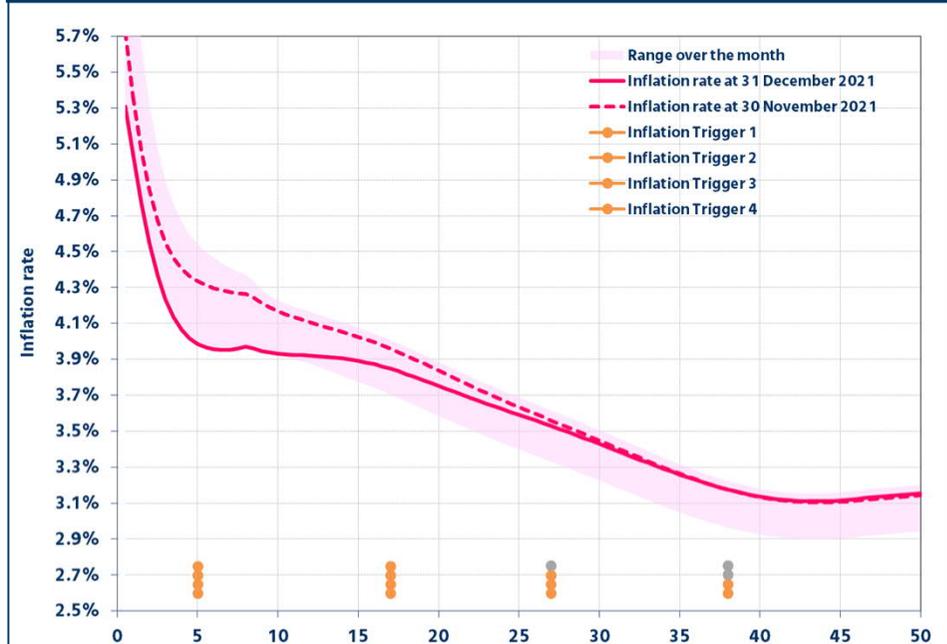
Date	Band 1	Band 2	Band 3	Band 4	Actual
30 September 2021	19.68%	18.74%	21.58%	29.28%	23.5%

Comments

Over the month of December, interest rates rose across the curve.

Based on market conditions as at 31 December 2021, yields would need to rise by c. 2.0% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 September 2021	34.82%	21.23%	29.92%	62.13%	39.6%

Comments

Over the month of December, inflation expectations fell at shorter tenors and were broadly unchanged at longer tenors.

The target hedge ratios for the portfolio are 20% for interest rates and 40% for inflation expectations. No triggers were breached in December.

Update on equity protection mandate

Page 66

Strategy versus equity index



GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	5.7%	(1.1%)	0.1%	(0.0%)	4.7%	(1.0%)
YTD	33.4%	(5.0%)	0.2%	(0.4%)	28.1%	(5.2%)
SI (per annum)	18.3%	(3.9%)	(2.0%)	(0.5%)	11.9%	(6.4%)

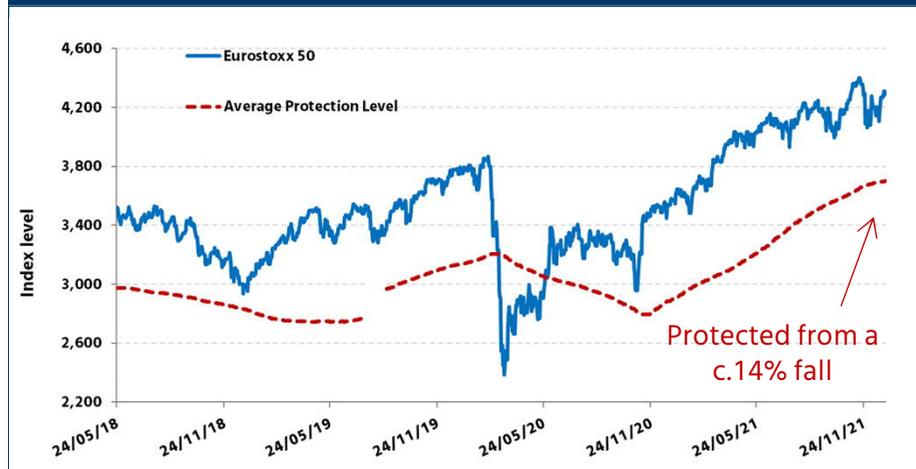
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. The equity protection strategy was revised in Q4 2020, increasing the call frequency to two weekly. This ensures that the Fund can participate in more upside as equity markets rise. The TRS structure was extended for a further 3 years on 23 May 2021 with no further changes to the strategy.
- Equity markets rose over December, resulting in positive performance for the strategy over the month. As at 31 December 2021, there was a gain of c. £175.6m on the equity strategy since inception, relative to a c. £238.6m gain had the Fund invested in passive equities (with no frictional costs).
- From inception on 8 March 2019 to 31 December 2021, the currency hedge of the market value of the synthetic equity mandate has resulted in a c. £1.1m loss relative to an unhedged position, as sterling has weakened at an overall level since inception.

US equity exposure

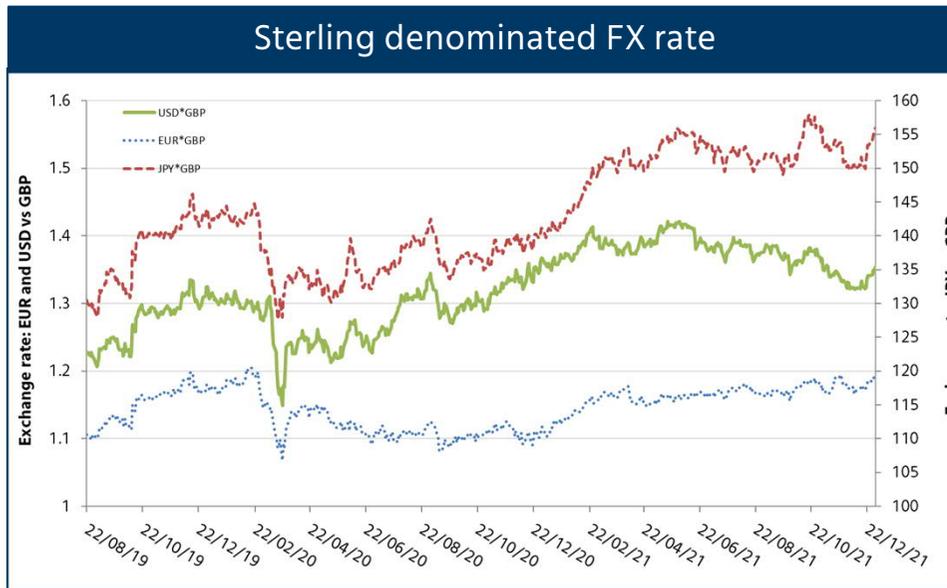


European equity exposure (note different scale)



Developed market physical equity currency hedge

Page 67



- ### Comments
- A currency hedge was placed on the physical, developed equity portfolio to lock-in gains from sterling weakness and reduce currency risk.
 - The hedge has been implemented via a currency overlay, using 3 month forward contracts, within the Insight QIAIF. The hedge is updated quarterly to allow for changes in the underlying equity exposure.
 - As at 31 December 2021, the market value of the currency hedge since inception on 22 August 2019 was £11.4m.
 - The market value of the currency hedge has increased over December due to a strengthening of sterling against all three major currencies.

	Currency basket weight	FX performance (since inception*)	FX change in performance since 30 November 2021
EUR	15%	£2.3m	£0.4m
JPY	8%	£3.2m	£0.7m
USD	77%	£6.0m	£3.6m
	100%	£11.4m	£4.8m

*Insight transacted on the currency hedge on 22 August 2019.

Figures may not sum due to rounding.

Glossary

- **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determining the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- **Collateral** - Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- **Counterparty** - Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- **Deficit** - The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- **Dynamic protection strategy** - Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- **Equity option** - A financial contract in which the Fund can define the return it receives for movements in equity values.
- **Flightpath** - A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.
- **Funding level** - The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.
- **Funding & Risk Management Group (FRMG)** - 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.
- **Hedging** - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- **Hedge ratio** - The level of hedging in place in the range from 0% to 100%.
- **Insight QIAIF (Insight Qualifying Investor Alternative Investment Fund)** - An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 9 th February 2022
Report Subject	Proposed Investment Strategy Statement
Report Author	Deputy Head, Clwyd Pension Fund

EXECUTIVE SUMMARY

The LGPS Investment Regulations include a requirement to produce, and maintain an Investment Strategy Statement (ISS). The Fund's first ISS was produced in 2017, and the most recent was approved in February 2020. The Regulation states that statements must be kept under review and revised from time to time and at least every three years.

At the meeting of the Committee in November 2021 Members agreed to the updating of the Fund's ISS to reflect the commitment to setting decarbonisation targets for the Fund including net zero by 2045 and a 50% total portfolio carbon reduction by 2030. The Fund was to consult with Employers on the changes to the ISS and then present it to the Committee for approval.

Following the consultation process, the proposed revised ISS is attached as an Appendix to this report, and has been updated to reflect the agreed net zero targets. There have also been some minor changes including the monitoring of funding levels.

RECOMMENDATIONS

1	The Committee note, comment on and approve the revised Investment Strategy Statement.
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REPORT DETAILS

1.00	2022 Revision of Investment Strategy Statement
1.01	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide the statutory framework under which the Administering Authority is required to prepare and publish an Investment Strategy Statement (ISS). The Regulations and accompanying guidance required that Administering Authorities prepared and published their first ISS by 1 April 2017. After this, the requirement is that the ISS is regularly reviewed and updated from time to time; at least every three years.
1.02	The Committee approved the first Clwyd Pension Fund ISS in 2017, and the last revision was February 2020. A full review of the Investment Strategy will be undertaken in tandem with the 2022 actuarial valuation with any changes then reflected in the ISS. However, given the approval of net zero targets for the Fund at the November 2021 Committee the ISS has now been updated to reflect those changes.
1.03	The updated ISS is attached as an appendix to this report and the key changes are highlighted in the document and summarised below: <ul style="list-style-type: none">• Page 5 of the ISS now includes the Fund's net zero target in its list of objectives.• Page 26 details the commitment to net zero and key targets.• Page 28 includes an additional statement to highlight the risks to be considered in the review of the Investment Strategy and Actuarial Valuation processes.
1.04	The Fund consulted on these proposed changes with its employers during December 2021 and January 2022. The responses received to date have been positive with no amendments being suggested. A verbal update will be provided if more responses are received before the Committee meeting.
1.05	In addition, other inconsequential changes have been made such as updating dates. Furthermore, Page 13 includes a paragraph incorporating the 110% funding trigger as referred to in the separate agenda item "Funding, Flightpath and Risk Management Framework Update".

2.00	RESOURCE IMPLICATIONS
2.01	The increase in focus on responsible investment and climate change matters increases the amount of work for both officers and advisers. The impact relating to officer resource will continue to be monitored. There will be a cost to implementing the net zero strategy and the costs will be incorporated into the 2022/23 and future year budgets.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	The Administering Authority consulted with Fund's employers over the revisions to the Investment Strategy and Responsible Investment Policy during December 2021 and January 2022.

4.00	RISK MANAGEMENT
4.01	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Funding and Investment risks: F2,F3,F4,F6 and F9.
4.02	<p>The Fund's Investment Strategy aims to achieve the requisite level of investment return to meet the CPF Funding Strategy, whilst at all times managing the levels of risk effectively.</p> <p>The ISS covers this in some detail, and highlights the focus that the Fund places on risk within the Cash and Risk Management Framework.</p>

5.00	APPENDICES
5.01	Appendix 1 – Proposed Investment Strategy Statement

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>1. Current ISS available in the strategies and policies section of the CPF website - Investments and Governance - Clwyd Pension Fund</p> <p>Contact Officer: Debbie Fielder, Deputy Head of Clwyd Pension Fund Telephone: 01352 702259 E-mail: debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> a) CPF – 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 b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the

management and stewardship of the Fund.

- c) **Absolute Return** – The actual return, as opposed to the return relative to a benchmark.
- d) **Annualised** – Figures expressed as applying to 1 year.
- e) **Duration** – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
- f) **Market Volatility** – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.
- g) **Money-Weighted Rate of Return** – The rate of return on an investment including the amount and timing of cash-flows.
- h) **Relative Return** – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.
- i) **Three-Year Return** – The total return on the fund over a three-year period expressed in percent per annum.
- j) **Time-Weighted Rate of Return** – The rate of return on an investment removing the effect of the amount and timing of cash-flows.
- k) **Yield (Gross Redemption Yield)** – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cash-flows.

A comprehensive list of investment terms can be found via the following link:

<https://www.schroders.com/en/uk/adviser/tools/glossary/>

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Gweinyddwyd gan
Administered by



FLINTSHIRE COUNTY COUNCIL

**Administering Authority for
CLWYD PENSION FUND**

INVESTMENT STRATEGY STATEMENT

February **20202022**

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Statutory Requirement for an Investment Strategy Statement

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund (the Fund) on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme regulations; the regulatory framework is set out below.

Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the LGPS Investment Regulations), which replace the 2009 Investment Regulations requires administering authorities to formulate an Investment Strategy Statement (ISS) which must be in accordance with guidance issued by the Secretary of State. This replaces the existing requirement to produce and maintain a Statement of Investment Principles.

The ISS must include:

- a) A requirement to invest money in a wide variety of investments
- b) The authority's assessment of the suitability of particular investments and types of investments
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect, replaces Schedule 1 of the 2009 Regulations.

The statement must be published by 1 April 2017 and regularly reviewed at least every three years.

The original Clwyd Pension Fund ISS was designed to comply with the guidance given by the Secretary of State and was effective from 1 April 2017. It has been reviewed on a regular basis and was updated in **20182020**. This updated version was presented to the Committee in February **20202022** for approval.

This ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Strategy
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation.

All the above statements and documents can be found on the Fund's web site at <https://mss.clwydpensionfund.org.uk/>.

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ABOUT THE FUND

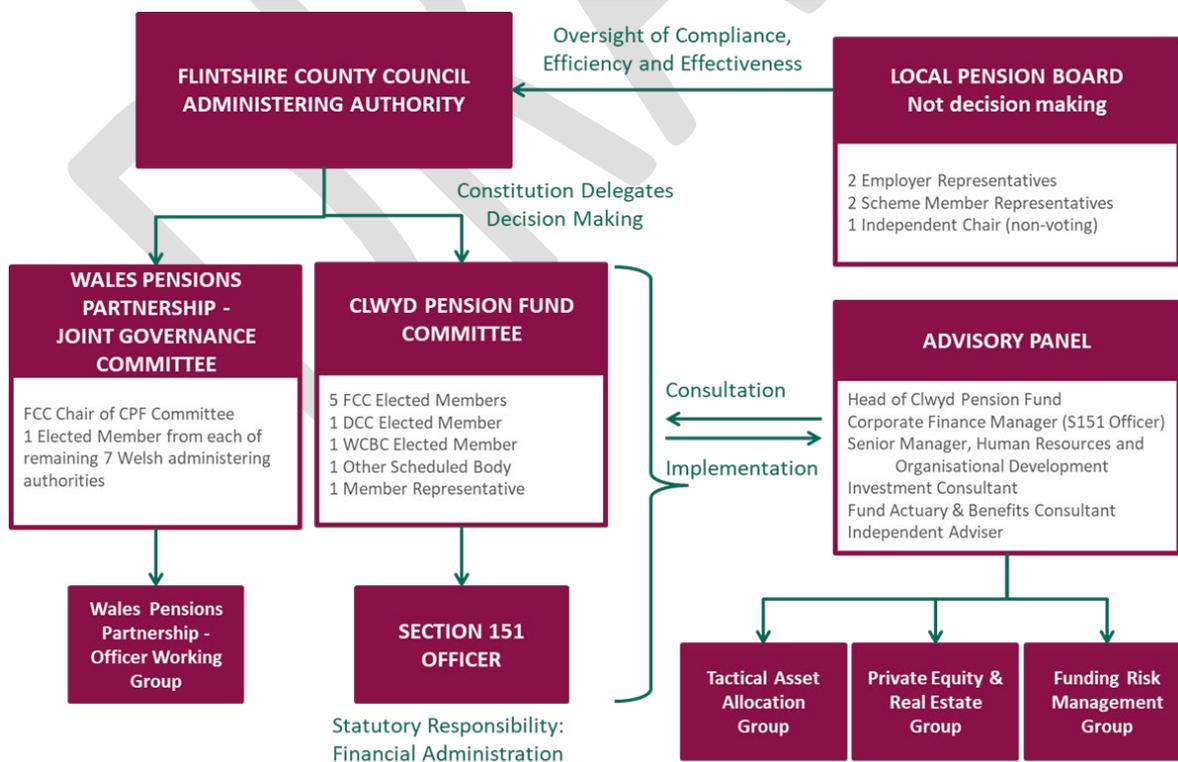
The Clwyd Pension Fund is a £2.0bn Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and fire-fighters) in North East Wales and employees of other qualifying bodies which provide similar services.

Total Fund membership is about 46,900,491,100 with about 16,800,17,700 active contributors from 4,752 contributing employers and about 30,100,31,400 retired members, widows and deferred members.

Governance and Management of the Fund

The key decision making and management of the Fund has been delegated by Flintshire County Council (the Council) to a formal Pension Fund Committee (the Committee), supported by a Pensions Advisory Panel (AP). Before making strategic investment decisions the Fund takes advice from a regulated investment consultant; Mercer, who also provide Risk Management advice. The Council’s Section 151 Officer (Corporate Finance Officer) has a statutory responsibility for the proper financial affairs of the Council including Fund matters. ~~In addition, the Council has delegated specific responsibilities to the Chief Executive.~~

The Fund’s governance structure is illustrated in the diagram below.



Aims and Objectives

Our Fund's Mission Statement is:

- to be known as forward thinking, responsive, proactive and professional, providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

This applies to the approach to investing the Fund's monies as well as managing the overall Fund. The Mission Statement has been developed to guide the management of all aspects of the Fund.

The specific objectives relating to the funding and investment management of the Fund are summarised below.

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
 - Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
 - Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
 - Strike the appropriate balance between long-term consistent investment performance and the funding objectives
 - Manage employers' liabilities effectively through the adoption of employer specific funding objectives
 - Ensure net cash outgoings can be met as/when required
 - Minimise unrecoverable debt on employer termination
 - Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
 - Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045
 - Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
 - Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.
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The key actions and areas of focus that have been identified to achieve these objectives are included in the Fund's business plan, to align with the key aims and objectives of this strategy.

Investment Strategy of the Clwyd Pension Fund

The following sections detail the Fund's investment strategy, which takes into account LGPS Investment Regulations 7(2)(a) and 7(2)(b) as summarised below:

- Investment of money in a wide variety of investments
Regulation 7(2)(a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance does not prescribe the specific asset classes over which Fund monies must be invested.
- Suitability of particular investments and types of investments
Regulation 7(2)(b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. The investment and funding objectives are listed in the previous section "About the Fund".

In order that these primary objectives can be achieved, the following funding and investment principles have been agreed.

Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2020 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of CPI inflation plus 1.75% p.a. (assumed 4.15% p.a.).
- An investment return (discount rate) for the future service contribution rate of CPI inflation plus 2.25% p.a. (assumed 4.65% p.a.).

Over a three-year period, an investment return above these assumptions will contribute to reducing the funding deficit and thus employer contributions, providing that liability assumptions such as longevity and inflation remain on target. The Fund's triennial valuation considers all these factors when determining employer contribution rates. New employer rates will be implemented from 1 April 2020. The next actuarial valuation will be as at 31 March 2022 with implementation of revised contribution rates from 1 April 2023.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The FSS outlines the strategy for recovering the funding deficit over 13 years. A copy of the FSS can be obtained from the Fund's web site at <https://mss.clwydpensionfund.org.uk/> . The funding strategy will be monitored during 2020/23.

In managing the Fund, the key funding objectives are:

- to aim for a funding level of 100% and
- to aim for long term stability in employers' contribution rates, whilst recognising the constraints on affordability for employers.

A full list of the funding aims and objectives of the Fund are set out within the executive summary of the FSS.

The Clwyd Pension Fund was funded at 91% of liabilities (at the 2019 actuarial valuation) and employers' contribution rates are currently structured to achieve a gradual return to 100% funding by 2032.

Whilst stability of costs from the employers' contribution rates has the higher priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice
- employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund
- the Fund's overall investment policy will be aimed at achieving superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take active risk in how it invests its assets relative to its liability profile.

The investment principles of the Fund are stated in full below and are intended to strike the appropriate balance between delivering the strategy most suitable for long-term consistent performance and achieving the funding objectives. A favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

Investment Principles

The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an on-going basis, whilst maintaining an appropriate balance between long-term consistent investment performance and the funding objectives.

The Fund's overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund's long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.

It is Fund policy to carry out a fundamental review of the Fund's investment structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund's fixed strategic benchmark.

The latest Fund review was undertaken in 2019 and **the resulting** changes **as a result of this will behave been** implemented **in 2020**. Details of the investment strategy are included in the following sections.

Investment Strategy

Setting the Strategy

The Fund's investment strategy has been determined to meet the objectives outlined earlier in this Statement. This includes consideration for the Fund's liability profile and the attitude to risk.

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund. The Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Fund recognises the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, investment managers have been appointed to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Fund's Committee and officers to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio a number of characteristics of each asset class, and sub asset class, are considered. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long-term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

2019 Review

The 2019 review showed, using Mercer market forecasts for Quarter 2 2019, that the expected market returns over the coming ten-year period would mean that the Fund could be expected to generate a return of 5.6% p.a. (CPI inflation plus 3.4% p.a.). Investigations showed that the portfolio was, in the main, well diversified and did not need significant change. However, there were opportunities to reduce risk without sacrificing return.

These opportunities led to six main areas of change:

- Dis-invest from Diversified Growth Funds due to overall diversification of the Fund leading to less compelling case to hold
- Increase physical listed equity allocations in developed and Emerging Markets
- New Sustainable equity allocation to support Responsible Investment Policy
- Restructure existing Hedge Funds allocation
- Create new explicit Local/Impact portfolio in Private Markets portfolio
- Establishment of the Cash and Risk Management Framework.

These changes meant that the expected return could be increased by 0.2%, with minimal change to the projected Deficit Risk.

Further details in relation to the investment strategy are outlined in this section.

Investment Decisions

The Fund distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

Strategic investment decisions are made by the Committee. They do so after receiving advice from their investment consultant. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation.

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are ultimately the responsibility of the Committee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the respective fund. Furthermore, the Committee have delegated certain powers to the Head of the Clwyd Pension Fund taking advice from the Tactical Asset Allocation Group. The purpose of the Tactical Allocation Portfolio, managed by the group is to take advantage of short-term (approximately one year) opportunities that are consistent with the long-term risk and return goals of the Fund. The Tactical Allocation Group is bound by the Tactical Allocation Portfolio Terms of Reference.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers with which the Fund invests.

Strategic Asset Allocation

In setting the Strategic Asset Allocation for the Fund the LGPS Investment Regulations require the Fund to invest in a wide variety of investments and in doing so assess the suitability of particular types of investments. Subject to satisfying these elements of the Regulations the Fund is not constrained to certain types of investments; the requirement is for the Fund to set its own limits. In reviewing the strategy, the Fund considers the existing and a range of alternative asset classes.

Balance between different types of investments

The LGPS Investment Regulations require the administering authority to have regard for the diversification of the Fund's investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness of each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

The investment structure agreed in the 2019/20 investment strategy review is detailed in the table below:

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
Private Markets***	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
Total	100.0%

Notes:

*The Global Equity Portfolio includes a 5% Strategic Weight to a specific Low Carbon ESG focused fund.

**The Best Ideas Portfolio is tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the asset classes listed above or by separate asset classes in any type of investment. This allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

***The Target allocation of the underlying asset classes in Private Markets will take some time to achieve due to the illiquidity of the asset classes involved.

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective is met or exceeded.

Asset Allocation and Long Term Expected Return on Investment

The strategic asset allocation for the Fund must be consistent with the investment return assumed in the funding strategy. The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under or out-performance compared to the long-term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored (referred to as the Strategic Allocation). In addition, there are ranges for each asset category that allow limited deviation within the framework (referred to as the Strategic Range). The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing.

In addition to the Strategic Allocation and Strategic Ranges, a conditional medium-term asset allocation (the Conditional Range) exists, to manage major risks to the long term strategic asset allocation which may emerge between Fund reviews.

The Fund's strategic allocation, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2019/20 strategic review.

Asset Class	Strategic Allocation (%)	Strategic Range (%)	Conditional Range* (%)	Expected return above inflation(CPI) *** p.a.
Developed Global Equity	10.0	5.0 - 15.0	0 – 30	4.5%
Emerging Market Equity	10.0	5.0 – 15.0	0 – 30	6.4%
Hedge Funds***	7.0	5.0 – 9.0	0 – 15	1.3%
TAA/Best Ideas****	11.0	9.0 – 13.0	0 – 20	2.5%
Multi-Asset Credit	12.0	10.0 – 14.0	0 – 20	2.4%
Cash and Risk Management Framework*****	23.0	10.0 – 35.0	0 – 40	2.8%
Private Markets				
Property	4.0	2.0 – 6.0	0 – 8	2.0%
Private Equity	8.0	6.0 – 10.0	0 – 15	6.0%
Local/Impact	4.0	0.0 – 6.0	0 – 8	3.1%
Infrastructure	8.0	6.0 – 10.0	0 – 15	3.1%
Private Credit	3.0	1.0 – 5.0	0 - 6	1.5%
Total	100.0			

Notes:

* The Conditional ranges are at a total Fund level.

** Expected return is expressed as an excess long-term return over CPI Inflation to reflect extra risk being taken, excluding active management. This is based on Mercer Market Forecast as at the date of the 2019/20 strategic review. CPI Inflation is used as the basis for expected returns as it is a proxy for valuing the liabilities.

*** The Hedge Fund allocation is being restructured as a result of the 2019/20 review

**** The Best Ideas allocation is a short term (12-month horizon) tactical allocation based on **the JLT** Mercer's (the Fund's Investment consultant) "best ideas". The portfolio should be liquid and cost efficient.

***** The Cash and Risk Management Framework, a combination of Liability Driven Investment (LDI) and synthetic equity instruments, will be managed as part of a risk management approach. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic allocation of 23%.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long-term return. This was the case when modelling the revised investment strategy in 2019. This is explained in more detail in the risk section below.

Cash and Risk Management Framework

In March 2014, the Fund set up a Risk Management Framework (now referred to as Cash and Risk Management Framework). This has evolved since its initial implementation, and now includes the following **hedging** strategies that seek to manage a variety of financial risks. These strategies are implemented by Insight Investment Management (Insight). **Further information on the Framework can be found in the Funding, Flight-Path and Risk**

Management quarterly update report which goes to each Pension Fund Committee meeting.

Funding Level Monitoring

An approximate funding level is monitored daily and reported formally to the Funding and Risk Management Group on a monthly basis. Should the approximate daily monitoring indicate that the 110% trigger has been reached, an agreed process will be followed (as outlined in the “Delegation of Functions to Officers by the Pension Fund Committee”) to formally confirm whether the trigger has been met and whether any changes to the strategy should be made.

Liability hedging programme, controlling the Fund’s interest rate and inflation risk

In March 2014, the Fund established a liability hedging programme covering both interest rate and inflation risks. A ‘flightpath’ for increasing the level of protection was agreed based on market yield triggers to ensure that risk was reduced at favourable times. Since the adoption of the flightpath, a number of market triggers have been implemented.

As part of the 31 March 2019 actuarial valuation and investment strategy review cycle, the officers and Fund’s s actuarial and investment consultants (Mercer and JLT) have reviewed the flightpath and no change has been made to the interest rate and inflation triggers at this stage.

~~Further, as part of the flightpath, whilst there are no formal funding level triggers in place, it has been agreed that when the funding level reaches 100% or higher, consideration will be given as to whether to further control the Fund’s interest rate and inflation risk. The Funding and Risk Management Group monitors the funding level on a monthly basis.~~

Synthetic equity portfolio, gaining exposure to equities whilst hedging the downside risk

The Fund implemented a synthetic equity strategy in order to increase its expected return potential in a capital efficient manner. In order to manage the downside risks associated with the synthetic equity strategy, a static equity protection strategy was put in place, protecting against equity market falls on the equity exposure. This was in place from April 2017 until May 2018.

In May 2018, a new dynamic protection strategy was put in place. This provides improved flexibility and on-going governance versus the previous static approach as it allows the structure to more easily adapt to changing market conditions.

Currency hedging strategy

In August 2019, the Fund implemented a currency hedging strategy to reduce the risk of a strengthening pound devaluing the value of the Fund’s physical overseas equity

holdings. This was in light of the continued weakening of sterling. As holders of overseas assets, the Fund had benefitted significantly from the fall in sterling following the EU referendum and wished to reduce currency risk by locking in a portion of the gains made.

Collateral management strategy

The above strategies make use of derivatives and therefore require collateral to be set aside in order to support the positions and protect the Fund (and counterparties) from the risk of default. There is a balance between holding enough collateral to support the strategies against a material and sudden move in markets, versus holding too much that it becomes a drag on the Fund's returns.

In order to manage this balance, the Fund implemented a collateral management strategy. This ensures that the Fund holds the required amount of collateral to support the strategies, with any excess collateral held in higher yielding funds that can be sold quickly if more collateral is required. This helps generate additional return and reduces the governance burden on the Fund, leading to improved efficiency.

Realisation of investments

The Fund's investment policy is structured so that the majority of its investments (in equities and bonds) can, except in the most extreme market conditions, be readily realised.

However, the availability of alternative investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Investments such as property, infrastructure and private equity/debt are long term investments which the Fund is less likely to be able to realise in a short period. "Lock-up" periods are normal practice in hedge funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realisable either.

Notwithstanding this, the Fund maintains sufficient investments in liquid assets to meet its liabilities in the short and medium term as they fall due.

Cash Strategy

From 1 April 2011 the 2009 Investment Regulations required the Fund to have a separate bank account from the Local Authority.

The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:

- Benefits and transfers as per the Regulations.
- The administration costs of the Fund.
- The Investment management fees.
- Commitments to real assets and private market investments.

However, in extreme market conditions cash could be used as part of the Conditional Asset Allocation. The aim is to avoid requiring to borrow for liquidity purposes, although the LGPS Investment Regulations allow Pension Funds to borrow for a maximum of 90 days.

The cash could be deposited in one of the following, subject to cash flow requirements:

- The Pension Fund bank account with the National Westminster bank for daily liquidity.
- A deposit account with the National Westminster Bank with instant access.
- The Insight Liquidity Fund for unexpected liquidity requirements or higher rates of return.

As part of the 2019/20 review the Fund is developing its Cash Management Strategy and when this has been agreed this document will be updated to reflect this.

The Deputy Head of the Clwyd Pension Fund will arrange for the implementation of the cash strategy.

Stock Lending

The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund. It has been agreed that investments made through the Wales Pension Partnership will be covered by the pool's stock lending policy.

Approach to risk, including the ways in which risks are to be measured and managed

LGPS Investment Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate).

Risk Register

The Clwyd Pension Fund has a Risk Management Policy and Risk Register in place.

The Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity. The risk register is continually updated and key risks are considered on a regular basis at the Committee and AP meetings.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy, the funding level will deteriorate (all else being equal). The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings. The Fund has a bespoke Cash and Risk Management Framework that has established objectives to ensure that the Fund's exposure to interest rate risk and inflation risk is managed and monitored on an on-going basis.

Investment, by its very nature, is a risk-based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is considered in the Fund's Responsible Investment Policy which is explained later in this document. This includes the Fund's approach to the risks and opportunities associated with climate change, and the transition to a low carbon economy.

In considering the Fund's investment strategy, it is necessary to have regard to the balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising the downside risk, within agreed parameters.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Manager Risk (including the Wales Pension Partnership)

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

Liquidity Risk

- This is monitored according to the level of cash-flows required by the Fund over a specified period.
- Whilst ensuring that there is the appropriate liquidity within the assets held, the Fund invests in less liquid investments to take advantage of the "illiquidity premium" offered.
- Despite this the Fund holds an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable and there is a significant amount of liquidity based upon the existing strategic asset allocation.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

Corporate Governance Risk

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.

- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. In the future the Wales Pension Partnership will engage and exercise voting rights on behalf of the Fund. The Fund's Responsible Investment Policy explains the approach in detail and it is explained later in this document.

Legislative Risk

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- The Fund has a significant weighting to a Tactical Asset Allocation/ Best Ideas portfolio (TAA) which aims to take advantage of market risk, by making shorter term tactical allocations which suit the specific characteristics of the Fund. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Fund seeks to address this within the TAA and has also addressed this in the Cash and Risk Management Framework from a strategic perspective.

Interest rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

Inflation risk

- This is the risk that the value of the Fund's liabilities which are inextricably linked to Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee also acknowledge the interest rate risk and inflation risk related to individual debt instruments. This is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management and investing in assets that move in line with inflation such as Infrastructure.
- Since 2014 the Fund has adopted a Risk Management/Flight-path approach to managing the specific inflation and interest rate risk. The Flight-path is regularly reviewed and the appropriate **yield** trigger levels set.

Risk Budgets

When reviewing the Investment Strategy in 2019/20, as well as addressing the potential for investment return, the Fund also considered the risk of the proposed strategy when compared to the previous one. Risk is assessed by using a Value at Risk (VaR) approach. This approach measures the risk of loss for investments and estimates how much an investment strategy might lose (with a given possibility) given normal market conditions, in a set time period such as a day or a year.

The Fund needs to take risk within its Investment Strategy in order to achieve an adequate level of return above the Actuary's future service discount rate of Inflation (CPI) +2.25% per annum.

At a total Fund level, the total expected return of the previous strategy was 5.4% per annum with a VaR of £437.9m. The revised strategy as described earlier in the document increases the potential return to 5.6% per annum, with a VaR of £444.6m. The potential for increased return is reflected in the marginal increase in risk.

Proper advice

In assessing the Fund's strategy, including an assessment of the implicit risks, and setting the maximum limits the Fund has taken proper advice from **Officers, JLT Benefits Solutions (officers, and the Actuary, Investment Consultants) and Mercer (Actuaries and Risk Management Advisers)**.

As part of the Fund's governance structure, there are regular meetings between the Fund's officers, the Investment Consultants, the Actuaries and Risk Management Advisers and the Fund receives advice from these parties on a continuous basis.

Approach to pooling

LGPS Investment Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Clwyd Pension Fund is participating in the development of the Wales Pension Partnership (WPP). The proposed structure and basis on which the WPP will operate was set out in the July 2016 submission to the Government.

The WPP received confirmation from the Minister for Local Government that he was happy that the proposals met the required criteria, with the exception of the size requirement. However, the Minister confirmed in his letter to the Welsh Funds that given the special position of Wales, and the long history of collaboration he was content with the final proposal.

The agreed objectives of the WPP are:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

The Clwyd Pension Fund will aim to use the WPP as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

Structure and governance of the WPP

The Pool has appointed Link Fund Solutions Ltd to establish and run a collective investment vehicle for the sole use of the LGPS funds in Wales. A diagram showing the governance structure is shown on the next page.

A Joint Governance Committee (JGC) was established in 2017 to carry out a number of responsibilities relating to WPP including overseeing the operator. The JGC comprises elected members – one from each of the eight participating funds. It is anticipated that this may be the Chairs of the respective Pensions Committees although administering authorities may choose to nominate alternative members if appropriate. This arrangement provides accountability for management of the WPP and the operator back to individual administering authorities.

The JGC is setup formally as a Joint Committee between the participating administering authorities. It operates on the basis of "One Fund, One Vote", though in practice any

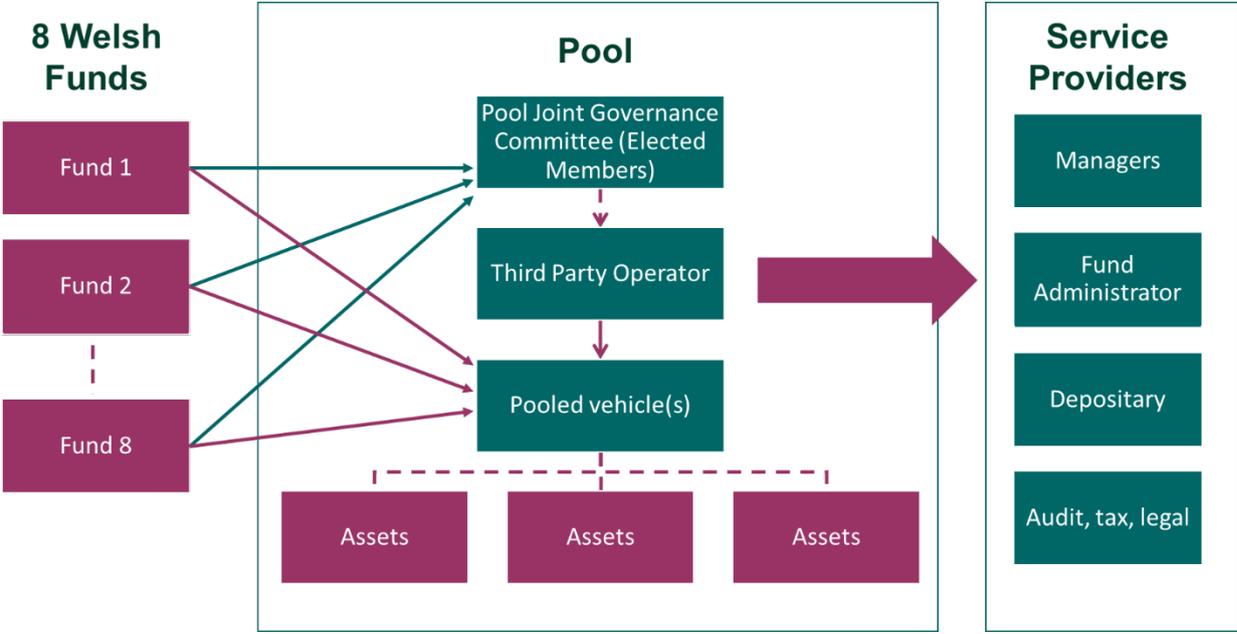
decisions are reached on a consensus wherever possible. A formal Terms of Reference for the Committee has been agreed.

Each authority has committed to the pool by agreeing and signing an Inter Authority agreement. The agreement sets out the principles behind the WPP.

The WPP Officer Working Group has been established as part of the Inter Authority Agreement to support and advise the JGC on such matters as the JGC may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates to officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group.

Governance Structure of the WPP



Link Fund Solutions Ltd is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as a depository asset servicer, and an external valuer as necessary.

Listed bonds and equities will be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle. It may be that alternative vehicles are more appropriate for some asset classes. As well as considering the options with Link Fund solutions, advice will be sort of the final proposed approach from a tax efficiency and legal compliance basis.

The process and benefits of doing so will be discussed with the operator. Given the Fund has a significant proportion of its assets in alternative, less liquid investments it may be some time before all of the Fund's assets are able to be pooled.

Approach to Environmental, Social and Governance issues and policy on exercising voting rights

Regulatory Background

In preparing, developing and implementing this Policy, the Fund has paid due regard to the regulatory background. The LGPS Investment Regulations require administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

The LGPS Investment Regulations also require administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate their policy on stewardship with reference to the Stewardship Code.

In addition to considering the LGPS Investment Regulations in developing the Responsible Investment Policy the Fund has taken professional advice. It has also had regard to the Well-being of Future Generations (Wales) Act 2015, guidance from the Scheme Advisory Board, the Ministry for Housing, Communities and Local Government and the Welsh Government. The Fund commits to keeping the policy reviewed in line with any future changes or updates in regulation or guidance.

The Fund has also considered, researched and reviewed a number of other areas of best practice when preparing this Policy such as the United Nations Principles for Responsible Investment, the Sustainable Development Goals and the Task Force **for** Climate-related Financial Disclosures (TCFD).

Responsible Investment Policy

In 2019 the Fund undertook a review of its Responsible Investment Policy in conjunction with the overall review of the Strategic Asset Allocation. The target for this review was to re-affirm the Fund's existing beliefs, supplement these with additional views if appropriate and consider ways in which these views could be implemented.

As a result of this review the Fund's long standing Responsible Investment (RI) Policy was updated to reflect current attitudes and thinking. In addition to help formally frame the policies, the Fund has set a number of high level beliefs that will sit over the more detailed policies, and will convey the Fund's overarching attitude to being a Responsible Investor.

Background

This revised Policy will support the Fund's specific RI aims with the funding and investments specific objectives:

- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

Investment Pooling

As part of the Government's investment reform, the Fund has participated in the development of the WPP to pool the investments of the 8 Welsh LGPS funds. Whilst all strategic asset allocation and policy decisions remain with the Fund, implementation responsibilities in the future will be the responsibility of WPP.

The Fund is committed to pooling its investments with WPP, and acknowledge that this presents challenges, and also significant opportunities to enhance the Fund's approach to RI. The Fund has proactively engaged with WPP in setting WPP's RI policy and objectives, and is confident that they will enable it to implement its own policies.

The Fund will work with the WPP to develop their policies in the future to ensure they remain relevant and appropriate for the Clwyd Pension Fund.

Stewardship and Engagement

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. In October 2019 the FRC issued an updated and increasingly demanding version, the UK Stewardship Code 2020. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK authorised asset managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS guidance given by the Secretary of State requires states that administering authorities should become signatories to the Code, and states states how they implement the principles on a "comply or explain" basis.

~~The Fund applied and was approved as a Tier One signatory in March 2018, and can be seen on the FRC website - <https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners>.~~

~~In practice the Fund ~~has applied~~ continues to apply the requirements of the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In the future as a member of the WPP, the Committee expects both WPP and the underlying fund managers to comply with the Stewardship Code.~~

~~In October 2019 the FRC issued an updated and increasingly demanding version of the Stewardship Code, and the The Fund ~~commits~~ is now committed to reviewing its compliance against the updated Code with the aim of ~~remaining~~ becoming a signatory to the new Code. As a member of the WPP, the Fund expects both WPP and the underlying fund managers to comply with the Stewardship Code. WPP has appointed Robeco as its Voting and Engagement provider and they are assisting in formulating and maintaining a voting policy and engagement principles that are in keeping with the LAPFF. In addition, Robeco are responsible for implementing the voting policy and reporting on it.~~

Reporting and Disclosure

The Fund is committed to transparency of its actions, in particular with respect to RI. The Annual Report contains copies of a number of documents including policy statements, and the ISS (in full). The annual report is circulated widely and is published on the Fund's website. It is accepted that approaches to RI and sustainability will evolve and develop over time, and it is therefore essential to keep policies and practices under regular review to ensure their effectiveness. In addition, the Fund recognises the importance of transparency and reporting in respect to RI and environmental, social and governance (ESG) issues, and therefore plans to enhance its analysis, disclosure and reporting. This will include manager ESG ratings, voting and engagement and carbon emissions analysis, and impact where relevant.

Responsible Investment Beliefs

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests and recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees, other stakeholders and also wider society.

The Fund defines a **Responsible Investment** (RI) as:

Incorporating sustainability considerations within the investment process, including environmental, social and governance (ESG) factors for a broader perspective on risk and return opportunities.

In developing its approach to RI, the Fund seeks to understand and manage the ESG and reputational risks to which it is exposed. This policy sets out the Fund's approach to this.

The foundations of the Fund's approach to RI are its Principles which are set out below:

Responsible Investment Principles

- The Fund's fiduciary duty is to act in the best interests of its members and employers. The Fund recognises that ESG issues create risk and opportunity to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore, that these factors should be taken into account in its Funding and Investment Strategies and throughout the decision making process.
- The Fund is a long-term investor, with pension promises for many years, and because of this, it seeks to deliver long-term sustainable returns.
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process.
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment.
- The Fund recognises that transparency and accountability are important aspects of being a Responsible Investor and will demonstrate this by publishing its RI policy and activity for the Fund.
- The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage corporate responsibility.
- The Fund recognises the significant financial risk of **not** being a Responsible Investor and it seeks to ensure that this risk is mitigated through its Investment Policy and implementation.
- The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and it will make selective investments to support this aim.

Climate Change

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the Fund's investment portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders.
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy.
- As well as creating risk, **climate change** also presents opportunities to make selective investments that achieve the required returns, whilst at the same time

make a positive social and environmental impact, such as environmental infrastructure and clean energy.

Net-Zero commitment

As part of its commitment to RI the Fund has undertaken to evaluate and manage the carbon exposure of its investments to assist in ensuring an effective transition to a low-carbon economy. As part of this work, on 10 November 2021 the Clwyd Pension Fund Committee approved a strategy to achieve net-zero carbon emissions from its investment portfolio. This included carbon emissions analysis of the listed equity portfolio to provide a baseline for the Fund. Specifically, the Committee agreed an ambitious target for the investments in the Clwyd Pension Fund, as a whole, to have net zero carbon emissions by 2045, with an interim target of carbon reduction of 50% by 2030. Underlying this headline commitment, the plan also has a number of other key targets as outlined below:

a) for the Fund as a whole:

- to have at least 30% of the Fund's assets allocated to sustainable investments by 2030
- to expand the measurement of the carbon emissions of the Fund's investments to include all assets by the end of 2023.

b) within the Listed Equity portfolio:

- to achieve a reduction in carbon emissions of 36% by 2025 and 68% by 2030
- to target at least 30% of the Listed Equity portfolio to be invested in sustainable assets by 2030
- to reduce fossil fuel exposure relating to oil and gas by 70% by 2025 and 90% by 2030
- to reduce fossil fuel exposure relating to coal by 90% by 2025 and 95% by 2030
- to engage with the biggest polluters within the Fund's Listed Equity portfolio as part of an overarching stewardship and engagement strategy, to achieve:
 - by 2025, at least 70% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective.
 - by 2030, at least 90% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective.

The Fund will monitor and report against these targets at least annually, and may review and revise them as appropriate, particularly to ensure that targets and ambitions are in line with national and international developments and initiatives.

Strategic RI Priorities

The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to concentrate on everything together. Therefore, to enable the approach to be focused, the Fund has considered

its strategic priorities for **the next 3 years (2020 to 2023)**, which will support the overall aim of being a Responsible Investor.

These priorities were set in 2020 and work is ongoing to deliver against each of them, and the Clwyd Pension Fund Committee receives regular updates on progress.

These strategic priorities will be reviewed annually, and may be added to, but to maintain the desired focus the following have been identified from an RI perspective:

- *Evaluate and manage carbon exposure*
 - The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio.
 - Once this initial assessment has been made the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the following five years.

- *Identify sustainable investments opportunities*
 - The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The 2019 Investment Strategy Review has further supported this with the creation of a separately identified Local/Impact portfolio.
 - This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the [United Nations Sustainable Development Goals](#). Additional opportunities will be added with a view to achieving the target weight in three years (i.e. by 2023).

- *Improve public disclosure and reporting*
 - The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis.

- *Active Engagement on ESG risks*
 - As a member of the LAPFF, the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments, this engagement will be supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement.

- *FRC Stewardship Code*
 - The Fund **has been previously confirmed as** a Tier One signatory to the **2012** Stewardship Code **since** March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and aiming to **remain a Tier One**

signatory if practical. If this is not achievable the Fund will encourage the WPP to do so become a signatory.

Actuarial Valuation and review of Investment Strategy

The assessment of the impact of climate change on the Fund's investment strategy will underpin the actuarial valuation and investment strategy review processes, both of which will be carried out during 2022. Addressing climate change related risks will be a key factor in each.

Commitment

The Fund has always sought to act with conscience when it comes to its investments and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice, and the Fund is committed to ensuring its approach remains relevant and appropriate. This RI Policy will be formally reviewed at least every three years as part of any strategic review of the Fund's asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise.

Approval, review and further information

Approval, Review and Consultation

This version of the Investment Strategy Statement was approved at the Clwyd Pension Fund Committee after consultation on 14⁹ February 20202022. It will be formally reviewed and updated at least every three years or sooner based on when it is considered appropriate to review the Fund's approach to investing the Fund's assets, including responsible investing.

Further Information

If you require further information about anything in or related to this Investment Strategy Statement, please contact:

Debbie Fielder, Deputy Head of Clwyd Pension Fund, Flintshire County Council
E-mail – debbie.a.fielder@flintshire.gov.uk
Telephone - 01352 702259

Further information about the Fund can be found on its website - <https://mss.clwydpensionfund.org.uk/>.

Further information about the Wales Pension Partnership can be found on its website - <https://www.walespensionpartnership.org/>.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 9 th February 2022
Report Subject	Asset Pooling and WPP Annual Updates
Report Author	Deputy Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the work undertaken by the Wales Pension Partnership (WPP) with pooling investments in Wales.

There was a WPP Joint Governance Committee (JGC) on 1st December 2021 and the draft minutes are appended for information which includes the extension of Link's Fund Solutions' Operator contract to December 2024

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, as well as representing the interests of the Clwyd Pension Fund on the:

- Officer Working Group
- Risk sub group
- Responsible Investment sub group
- Private Markets sub group – this includes the procurement process for private market allocators.

The Committee will receive the annual presentation from the Operator and Investment Management Solution provider (Link Fund Solutions and Russell Investments) for the WPP.

RECOMMENDATIONS

1.	That the Committee note and discuss the JGC agenda and agree any comments or questions for WPP.
2.	That the Committee receive the presentation from the WPP Operator and Investment Manager and agree any comments or questions for WPP.

REPORT DETAILS

1.00	Pooling Investment in Wales
1.01	<p>Joint Governance Committee (JGC) Agenda</p> <p>There was a WPP JGC on the 1st December 2021. The draft minutes of that meeting are attached (Appendix 1).</p> <p>In summary the JGC considered or approved the following:</p> <ul style="list-style-type: none">• A progress update from the host authority including noting that the co-co-opted member representative position is currently going through the appointment process.• A risk register review which this quarter considered investment and performance risks. The next review in Q1 2022 will focus on governance and regulation risks.• The development of a Rebalancing and Alteration Policy to apply to the full range of Sub Funds held in the WPP ACS umbrella.• Annual reviews of the Responsible Investment Policy and the Training Policy.• An update from the operator including the assets within the pool which are now £16.3bn as at September 2021. (A further £500m transitioned into Emerging Markets in October 2021).• An update on investment performance as at 30th September 2021. From a Clwyd Pension Fund point of view, this is for the Global Opportunities Equity Fund (invested since February 2019) and Multi Asset Credit Fund (Invested since August 2020). Both mandates are ahead of their relevant benchmarks. Emerging Market Equity transitioned to WPP in October 2021. <p>Further information on the above is available in the full public agenda which is available here</p> <p>There were a further five items for which the public were excluded:</p> <ul style="list-style-type: none">• The quarterly Global Securities Lending report was received.• The quarterly Engagement report was received from Robeco.• An independent review by Hymans Robertson on the WPP Global Growth and Global Opportunities Equity Funds.• Analysis of a local investment opportunity to be considered by the WPP.• The results of a review of the current Operator and approval to extend the current contract for two years to December 2024.
1.02	<p>Officer Working Group & Sub Groups</p> <p>The Deputy Head of Clwyd Pension Fund attends the Private Market sub-group and Responsible Investment (RI) sub-group. These are both complex areas and important for the Clwyd Pension Fund because 27% of our assets</p>

	<p>are in private markets and the ambitions within our Responsible Investment and Climate Risk policy. The Head of the Clwyd Pension Fund attends the quarterly meetings of the Risk Register group and all three groups report back to the Officer Working Group.</p> <p>An update was provided at the November Committee on the current tender to appoint “Allocators” who will select “best in class” private market managers across separate asset classes. This exercise is due to be completed for approval by the JGC on 23rd March 2022 and is expected to command considerable input from those officers involved in the process including the Deputy Head of the Clwyd Pension Fund.</p> <p>The second stage of the procurement for Private Debt and Closed Ended Infrastructure Allocators and Open Ended Infrastructure managers was initiated on 6th December 2021 with a closing date for submissions of 10th January 2022. The appointed Consultant, bFinance, who are running the Allocator procurements, will present to the WPP Officer Working Group on 1st February 2022 with final interviews scheduled for 14th to 16th February.</p> <p>The tender for the appointment of a Private Equity Allocator is anticipated to start from April 2022.</p>
1.03	<p>Since the last Committee the RI sub-group have met in November 2021 and January 2022. The main areas of discussion were :</p> <ul style="list-style-type: none"> • An update on the Stewardship Code submission. • An update from Robeco on engagement oversight. • Climate risk and ESG reports for the WPP Credit funds. • The voting policy of the WPP passive manager. • Further updates with Russell Investments to progress the implementation of an Active Sustainable Equity Sub Fund.
1.04	<p>Link Fund Solutions Update</p> <p>Appendix 2 is the presentation from Link Fund Solutions and Russell Investments (the Operator and Investment Manager for WPP) which will detail their role and the current position of assets held within the WPP. The Clwyd Pension Fund has exposure as at December 2021:</p> <ul style="list-style-type: none"> • Global Opportunities Equity £131.5m • Multi Asset Credit £255.6m • Emerging Market Equity £232.4m <p>All three mandates are managed by Russell Investments who will provide an update on each of the mandates as well as an overview of the approach to responsible investing and the sustainable active equity process.</p>
1.05	<p>Performance of WPP Mandates – Update by Russell Investments</p> <p><i>Global Equity Opportunities Fund</i></p> <p>The performance of the WPP Global Equity Opportunities Fund since inception in February 2019 is included in Appendix 2. Russell Investments, the Investment Management Solutions Provider for WPP, and in this case the</p>

	<p>Investment Manager for this sub fund, will present their view on the reasons for the performance of the fund at Committee.</p> <p>The Clwyd Pension Fund has a strategic allocation of 5% or circa £131.5m invested in this fund. Performance since inception is above benchmark but marginally behind target.</p> <p>Hymans Robertson have conducted an independent review of the mandate which reported an overall positive report in all the areas covered in the review.</p>
1.06	<p><i>Emerging Market Equity Fund</i></p> <p>The Fund transitioned £240m (10% strategic allocation) into the WPP Emerging Equity Fund in October 2021. This is too early to report on performance but Russell Investments will provide an update on the characteristics of the sub fund.</p>
1.07	<p><i>Multi Asset Credit Fund</i></p> <p>Russell Investments will provide an update at Committee of the performance of the WPP Multi Asset Credit Fund since inception in August 2020.</p> <p>The Clwyd Pension Fund has a strategic allocation of 12% or circa £255.6m invested in this fund. It is still early days and performance since inception is currently above target.</p>

2.00	RESOURCE IMPLICATIONS
2.01	None.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	<p>How the Wales Pension Partnership operates is key in enabling the Fund to implement its investment strategy. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations. In addition, further guidance on pooling is expected from DLUHC in the next few months and the implications of that guidance are not yet known.</p> <p>Given these points, this risk (risk number 3 on the funding and investment register) continues to be categorised as significant in the Fund's risk register.</p> <p>The WPP risk register is included in the JGC agenda. The focus last quarter was on investment and performance risks. The Head of Clwyd Pension Fund attends the WPP Risk sub group.</p>

5.00	APPENDICES
5.01	Appendix 1 – JGC 1 st December 2021 draft minutes. Appendix 2 – Link Fund Solutions and Russell Investments Update.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<ul style="list-style-type: none"> • Earlier Committee reports on the progress of the WPP. <p>Contact Officer: Debbie Fielder, Deputy Head, Clwyd Pension Fund Telephone: 01352 702259 E-mail: debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) 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</p> <p>(b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) The Committee – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) Inter-Authority Agreement (IAA) – the governance agreement between the eight Wales pension funds for purposes of pooling</p> <p>(f) Wales Pension Partnership (WPP) – the name agreed by the eight Wales pension funds for the Wales Pool of investments</p> <p>(g) The Operator – an entity regulated by the FCA, which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link.</p>

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WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

WEDNESDAY, 1ST DECEMBER, 2021

PRESENT: Councillor Cllr. C. Lloyd [Chair]

Councillors:

G. Caron, M. Norris, P. Jenkins, P. Lewis, T. Palmer, C. Weaver and D.E. Williams

The following officers were in attendance:

C. Moore – Joint Committee Section 151 Officer (CCC)
L. Rees-Jones – Joint Committee Monitoring Officer (CCC)
C. Lee – Corporate Director of Resources (CoC)
A. Bull – Head of Pensions (TCC)
B. Davies – Head of Financial Services (RCT)
J. Dong – Deputy S151 Officer/ Chief Finance Officer (C&CS)
D. Edwards – Chief Finance Officer (GCC)
J. Thomas – Head of Financial Services (PCC)
P. Latham – Head of Clwyd Pension Fund (FCC)
T. Williams – Senior Financial Services Officer (CCC)
M. Evans Thomas – Principal Democratic Services Officer (CCC) [Note Taker}
J. Owen – Democratic Services Officer (CCC) [Assisting]
K. Evans – Assistant Democratic Services Officer (CCC) [Assisting]
E. Evans – Principal Democratic Services Officer (CCC) [Webcasting]
S. Rees – Simultaneous Translator (CCC)

Also in attendance to present reports:

A. Johnston – Hymans Robertson
J. Wright – Hymans Robertson
E. Gough - Link Fund Solutions
K. Midl – Link Fund Solutions
R. Thornton - Link Fund Solutions
N. Round – Northern Trust
A. Knell – Robeco
K. Robertson – Robeco
T. Paik – Russell Investments
A. Quinn – Russell Investments

Also present as observers:

D. Fielder – Deputy Head of Clwyd Pension Fund (FCC)
K. Cobb – Pension Fund Accounting & Investment Manager (C&CS)
M. Falconer – Pension Manager (CoC)
C. Hurst – Pension Fund Manager (PCC)
D. Jones-Thomas – Investment Manager (GCC)
G. Watkins – Revenue Services Manager (CoC)
Y. Keitch – Principal Accountant (RCT)

Virtual Meeting : 10.00 am - 12.35 pm

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

Member	Agenda Item No.	Interest
Cllr. G. Caron	All agenda items	He is a paying and receiving member of the Greater Gwent Pension Fund, his wife is a receiving member and his son-in-law is a paying member
Cllr. P. Jenkins	All agenda items	He is a member of the Gwynedd Pension Fund
Cllr. P. Lewis	All agenda items	He is a member of the Powys Pension Fund
Cllr. C. Lloyd	All agenda items	He is a member of the County & City of Swansea Pension Fund
Cllr. M. Norris	All agenda items	He is a member of the Rhondda Cynon Taf Pension Fund
Cllr. T. Palmer	All agenda items	His partner and daughter are members of the Clwyd Pension Fund
Cllr. E. Williams	All agenda items	He is a member of the Dyfed Pension Fund

[Note: There is an exemption within the Code of Conduct for Members, which allows a member who has been appointed or nominated by their Authority to a relevant body to declare that interest but remain and participate in the meeting.]

3. TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 22 SEPTEMBER 2021

UNANIMOUSLY RESOLVED that the minutes of the Joint Governance Committee meeting held on 22nd September, 2021 be signed as a correct record.

4. HOST AUTHORITY UPDATE

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee received a progress update in relation to the following key areas:-

- Governance;
- Ongoing establishment;
- Operator services;
- Communications and reporting;
- Training and meetings; and
- Resources, budget and fees.

UNANIMOUSLY RESOLVED that the Host Authority update be received.

5. RISK REGISTER Q4 2021 REVIEW

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee considered the Risk Register Q4 2021 Review. It was noted that during the last quarter a review was undertaken of the Investment & Performance risks, risks I.1 to I.9. The review outcomes of each risk were summarised in an appendix to the report.

The Officer Working Group has a dedicated WPP Risk Sub-Group to take ownership of the WPP Risk Register and the quarterly review of this document. The next review will take place in Q1 2022 and will focus on risks G.1 to G.8 in the Governance & Regulation Risks section.

UNANIMOUSLY RESOLVED that the amendments to the WPP Risk Register, as detailed in the report, be approved.

6. REBALANCING & ALTERATION POLICY

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee considered a Rebalancing and Alteration policy which sets out the WPP's approach to rebalancing the assets held within the pool's sub-funds. The policy outlined the framework that has been put in place to ensure that manager allocations within sub-funds are monitored and rebalanced where appropriate.

The policy applied to the full range of sub-funds held in the WPP ACS umbrella, covering equity and fixed income mandates. Constituent Authorities may have other assets held outside the WPP and these assets were not covered by this policy. The WPP's rebalancing policy has been designed to ensure that all investors have clarity over the rebalancing policies in place.

The policy will be formally reviewed by the Officer Working Group on an annual basis and, if necessary, changes to the policy will be submitted to the Joint Governance Committee for approval.

UNANIMOUSLY RESOLVED that the Rebalancing and Alteration Policy be endorsed.

7. ANNUAL POLICY REVIEWS

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee received a report detailing the Annual Policy Reviews undertaken on the following policies:-

- Responsible Investment Policy
- Training Policy

These policies were approved by the JGC in September 2019 and December 2020 respectively and had been reviewed and updated by the Officer Working Group.

With regard to the Responsible Investment Policy, reference was made to point 5 (Exclusions) and the statement that the WPP has not adopted a policy of exclusionary practices. Officers were asked whether this should be amended to say that the WPP will be looking at exclusionary practices going forward as it has been discussed by the constituent authorities. It was felt that the intention should be included. The representative from Hymans agreed to extend the wording to say that the matter will remain on the agenda.

UNANIMOUSLY RESOLVED that the updated policies, as detailed above, including the amendment to the Responsible Investment Policy as detailed above, be approved.

8. OPERATOR UPDATE

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee received an update on the progress of the Wales Pension Partnership in relation to the following key areas:-

- Current Fund Holdings
- Fund Launch Progress
- Corporate Update and Engagement

The report also provided an update on the progress and milestones of the following Sub Funds:-

- Tranche 1 – Global Equity
- Tranche 2 – UK Equity
- Tranche 3 – Fixed Income
- Tranche 4 – Emerging Markets

UNANIMOUSLY RESOLVED that the Operator Update report be received.

9. PERFORMANCE REPORTS AS AT 30 SEPTEMBER 2021

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee received a presentation on the Performance Reports as at 30th September, 2021. It was noted that the sub funds had outperformed/underperformed against their respective benchmarks, as follows:

- Global Opportunities Equity Fund – outperformed by 1.14% gross / 0.77% net
- Global Growth Equity Fund – outperformed by 1.90% gross / 1.44% net
- UK Opportunities Equity Fund - outperformed by 2.44% gross / 1.99% net
- Global Government Bond Fund – outperformed by 1.80% gross / 1.60% net
- Global Credit Fund – outperformed by 1.49% gross / 1.33% net
- Multi Asset Credit Fund – outperformed by 3.21% gross / 2.79% net
- Absolute Return Bond Strategy Fund – outperformed by 0.27% gross / 0.19% net
- UK Credit Fund – underperformed by 0.28% gross / 0.15% net

Reference was made to the outstanding performance of the various funds since the establishment of the Partnership and to the responsible investment undertaken and thanks were extended to the investors.

UNANIMOUSLY RESOLVED that the Performance Reports of the Sub Funds, as detailed above, as at 30th September, 2021, be noted.

10. EXCLUSION OF THE PUBLIC

UNANIMOUSLY RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following items as the reports contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

11. GLOBAL SECURITIES LENDING REVIEW AS AT 30 SEPTEMBER 2021

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in Minute 10 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would adversely impact upon the Pension Fund by disadvantaging Fund Managers in negotiations with borrowers to the detriment of the Fund.

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee considered the Global Securities Lending Review for Quarter 3, as at 30th September, 2021.

UNANIMOUSLY RESOLVED that the Global Securities Lending Review as at 30th September, 2021 be noted.

12. ROBECO ENGAGEMENT SERVICE - Q3 2021 ENGAGEMENT REPORT

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in Minute 10 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would be likely to cause financial harm to the Pension Fund by prejudicing ongoing and future negotiations.

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee considered the Engagement Report for Q3 of 2021, which ended on 30th September, 2021.

UNANIMOUSLY RESOLVED that the Engagement Report for Q3 of 2021 be noted.

13. WPP SUB FUND REVIEW

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 10 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would adversely impact upon the Pension Fund by disadvantaging Fund Managers in negotiations.

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee considered a report on the review of the Global Growth and Global Opportunities Equity Funds.

UNANIMOUSLY RESOLVED that the WPP Sub Fund Review be noted.

14. LOCAL INVESTMENT OPPORTUNITY

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 10 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would be likely to cause financial harm to the Pension Fund by prejudicing ongoing and future negotiations.

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee considered a report detailing a local investment opportunity for the WPP.

An amendment was proposed, which was debated, voted upon and lost. The original motion was thereupon voted upon and it was

RESOLVED to agree in principle for the WPP to proceed with the Local Investment Opportunity, as detailed in the report, subject to finalisation of structural aspects and legal due diligence.

[NOTE: At this point in the meeting the Chair had to leave and the remainder of the meeting proceeded with the Vice-Chair presiding.]

15. OPERATOR CONTRACT

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 10 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would adversely impact upon the Pension Fund by disadvantaging Fund Managers in negotiations with borrowers to the detriment of the Fund.

[NOTE: Councillors G. Caron, P. Jenkins, P. Lewis, C. Lloyd, M. Norris, T. Palmer and E. Williams had earlier declared an interest in this item.]

The Joint Committee considered a report proposing an extension to the operator contract. An operator review had been undertaken and the recommendation was to extend the existing contract to December 2024.

UNANIMOUSLY RESOLVED that the operator contract be extended for a further 2 years, as detailed in the report.

CHAIR

DATE

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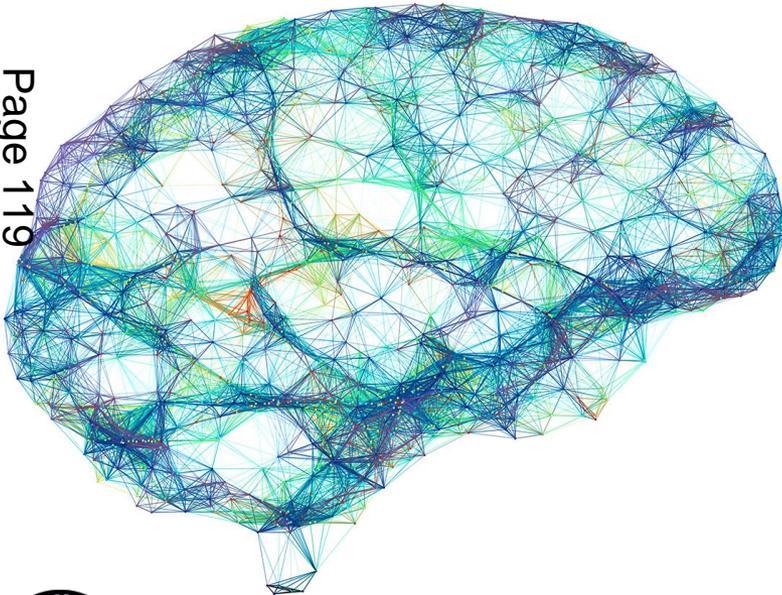
Clwyd Pension Fund Committee

Review & Outlook

Q4 2021



Page 119



Eamonn Gough

Senior Relationship Manager,
Link Fund Solutions, Link Group

Will Pearce, ASIP

Senior Portfolio Manager

Aidan Quinn, CFA

Associate Director,
UK Institutional

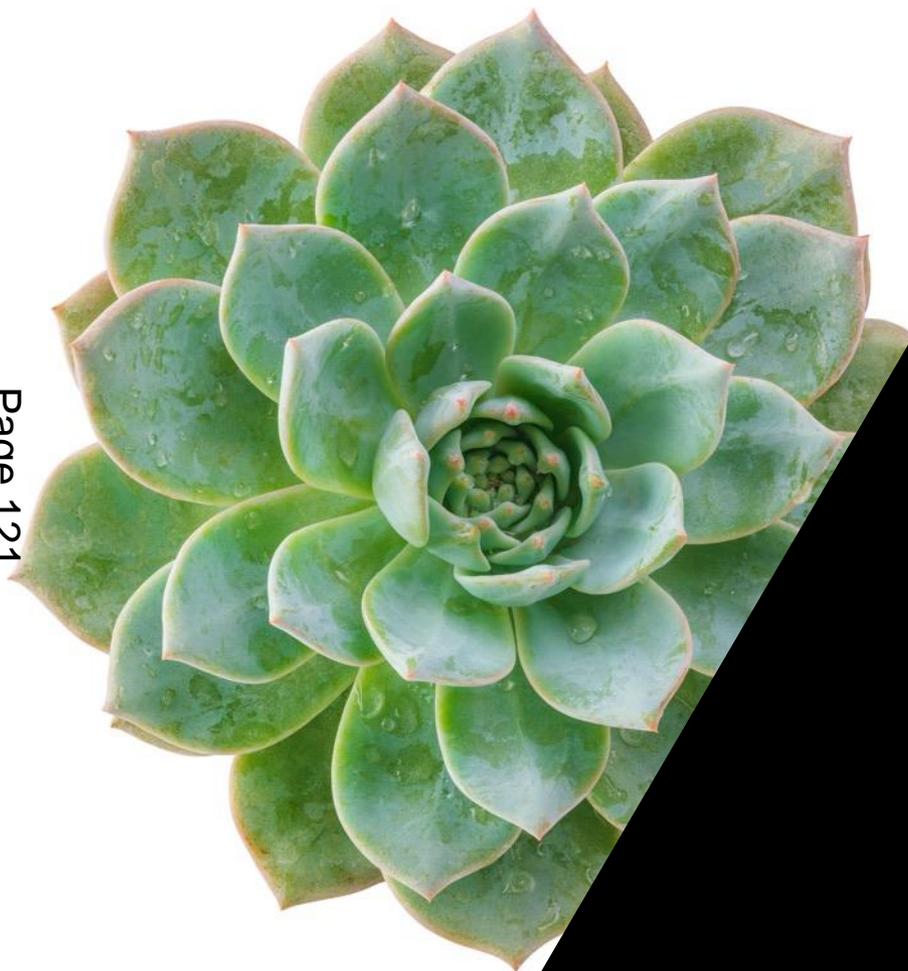
Agenda



Link Fund Solutions Introduction	3
Global Opportunities Equity Fund	8
Responsible Investing	16
NEW - Emerging Market Opportunities Equity Fund	22
Sustainable Active	26
Multi Asset Credit	28
Market Outlook	33

Link Fund Solutions Update

Page 121



Operator Services – Link Fund Solutions' experience

Page 122



£91bn
AUM



200
Funds



70+
Investment Manager
relationships



All classes
Of authorised funds supported
(QIS / UCITS / ACS / NURS / PAIF)



Operator Services



Sponsor

Investment Managers &
Russell Investments

EVERSHEDS
SUTHERLAND

Legal & Tax

LINKGroup

Operator



NORTHERN
TRUST

Depository*

Custodian

Securities Lending



NORTHERN
TRUST

Fund Administration

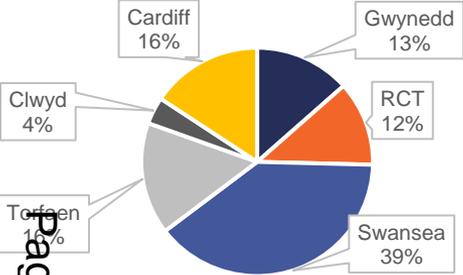
Performance reporting

Transfer Agent

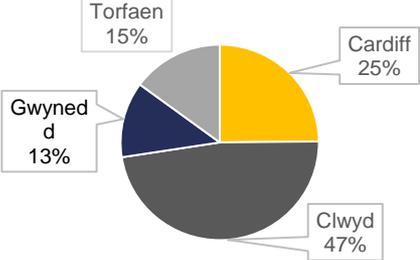
*Note: Depository function within a Co-Ownership ACS has a regulatory responsibility as an independent third party responsible for the safekeeping of assets within the ACS.

December 2021 Fund Snapshot - Clwyd

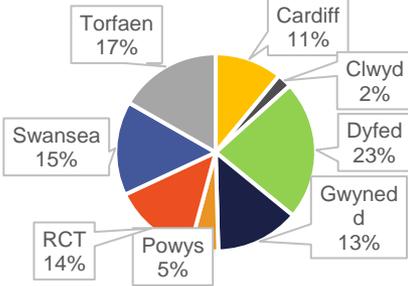
Global Opportunities



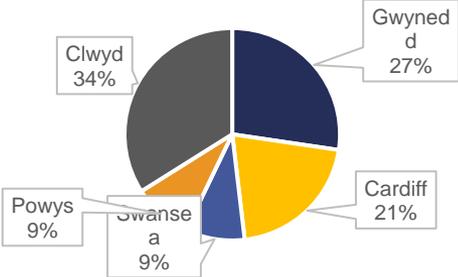
Emerging Markets



Passive*



Multi Asset Credit



- Key:
- Clwyd
 - Powys
 - Gwynedd
 - RCT
 - Torfaen
 - Dyfed
 - Swansea
 - Cardiff

Page 124

* Assets with BlackRock

December 2021 LF Wales PP Fund AUM- Clwyd

Fund	WPP AUM	Inception date	Clwyd AUM	Invested amount**	Income reinvested
Global Opportunities	£3,434,745,846	14 th Feb 2019	£131,552,143	£83,614,461	£4,452,717
Emerging Markets	£489,091,444	20 th Oct 2021	£232,422,386	£240,000,000	£0
Multi Asset Credit	£751,351,587	12 th Aug 2020	£255,607,961	£238,941,588	£6,087,621
Total Passive Investments*	£5,812,464,076		£136,131,234		
Total	£10,487,652,953		£755,713,724		

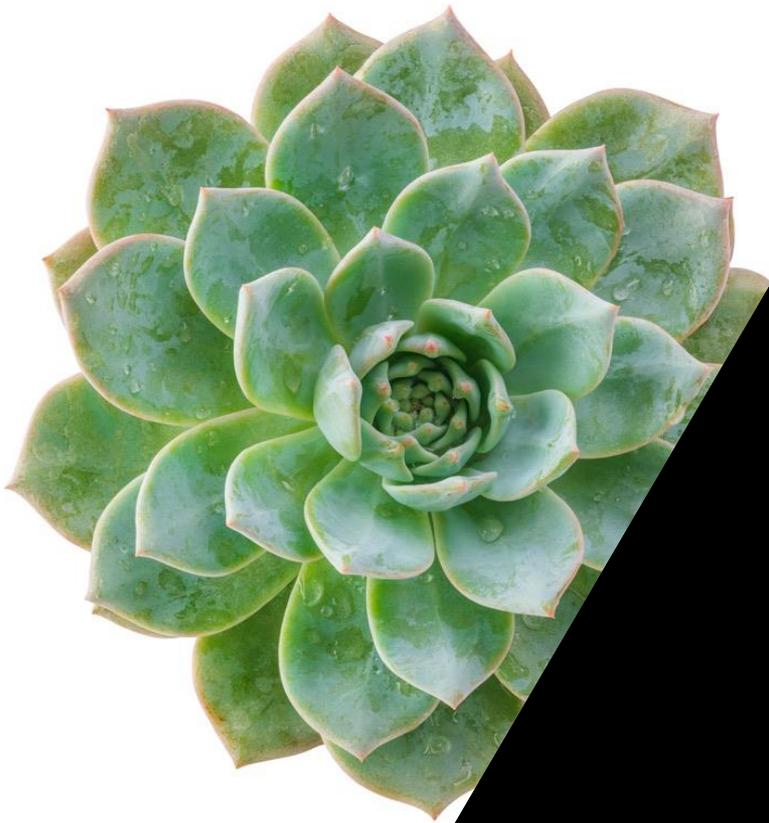
Note: All AUM as at 31st December 2021

* Assets with BlackRock

** Excluding dilution levy

Fund Review – Global Opportunities Equity Fund

Page 126



Combining the strengths of global and regional strategies

Equity portfolio management.

Multi-strategy portfolios combine both **Global and Regional** strategies and are “optimised” at the total level.



Page 127



Global managers generate value through cross regional trade-offs amongst **large-cap sectors and stocks**.

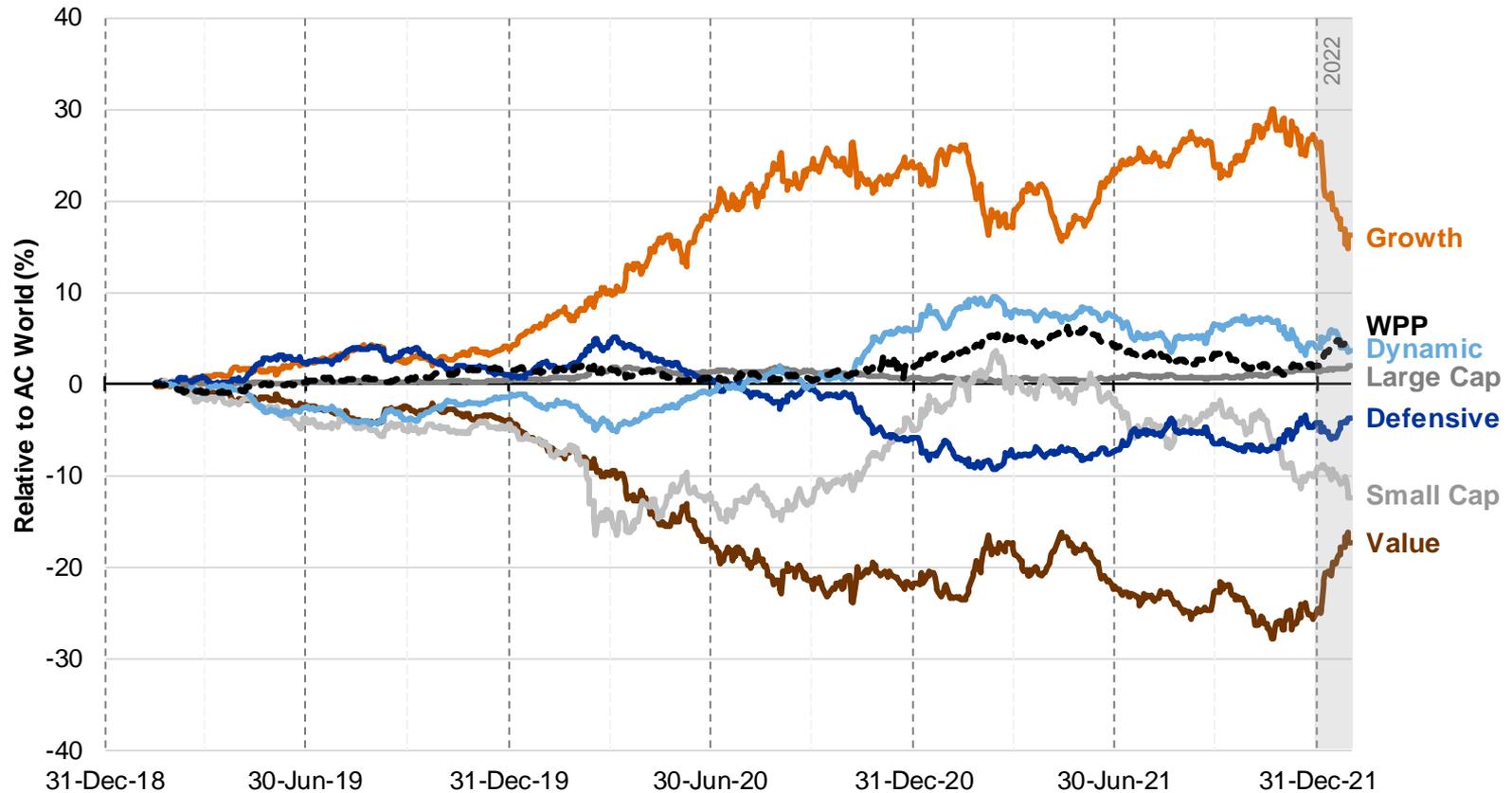


Regional managers operate in less efficient **mid/small cap** space and better capture local drivers

Market Performance - ITD

Relative

Page 128

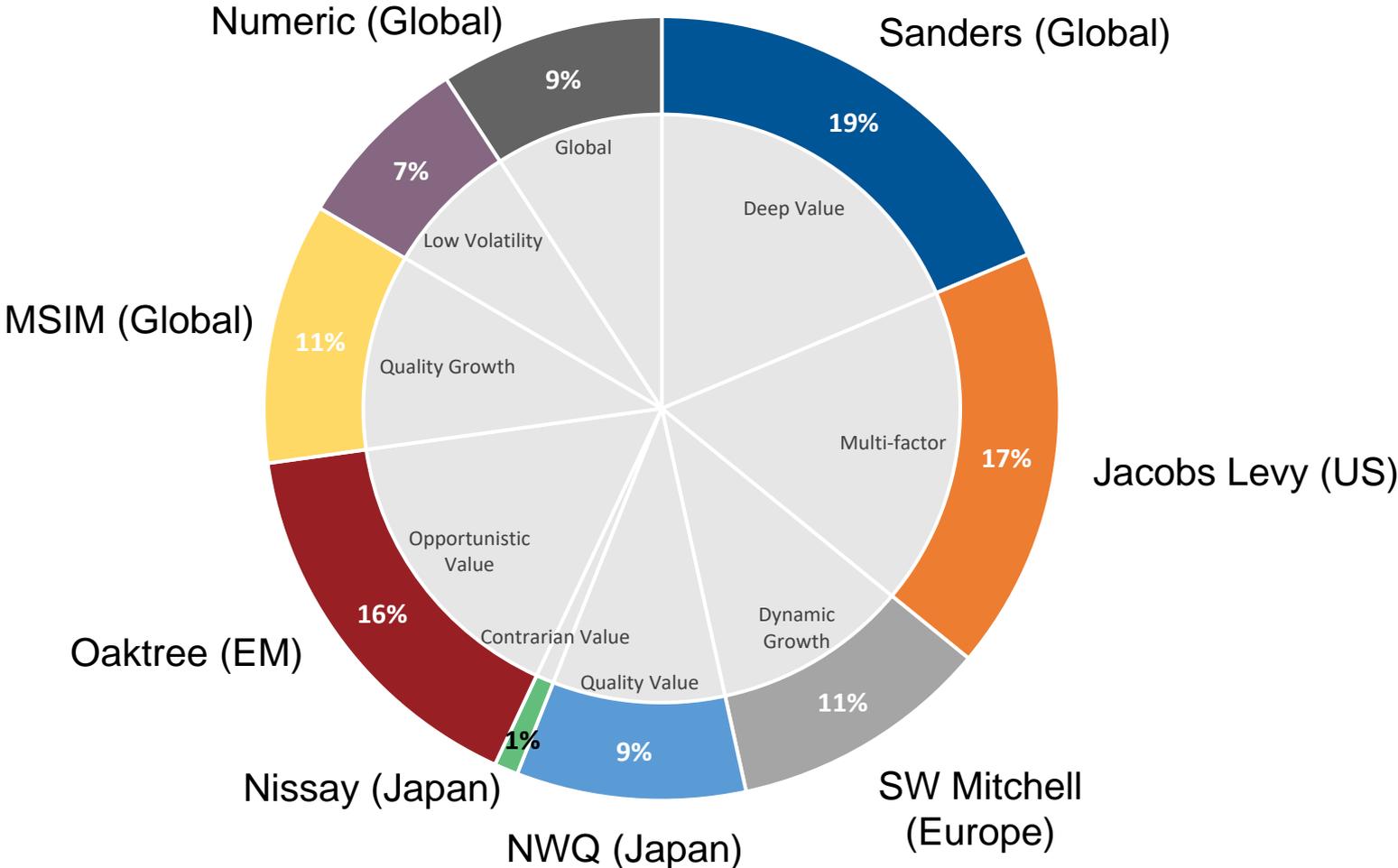


Source: Bloomberg, FactSet, SSC, Russell Investments as of 27 January 2022.

Notes: Arithmetic excess return, Wales portfolio vs MSCI ACWI NR GBP. 2022 performance is provisional. Style relative performance vs MSCI ACWI, TR, Gross in GBP.

Global Opportunities Equity Fund

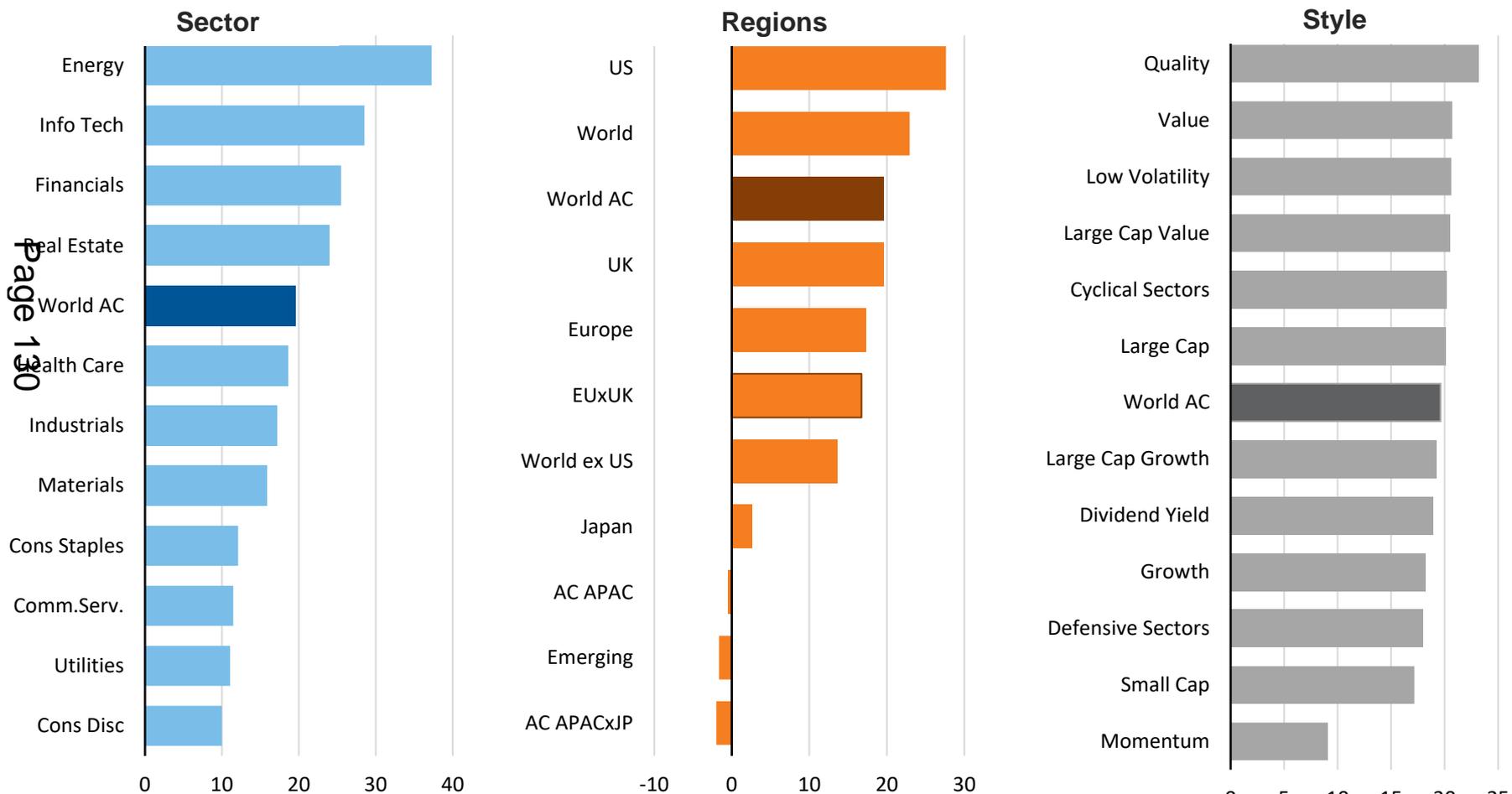
Page 129



Due to rounding, numbers presented may not add up precisely to the totals provided

Market Performance

2021



Notes: MSCI indices, Total Return, Net, in GBP.

Cyclical sectors contain: Consumer Discretionary, Financials, Real Estate, Industrials, Information Technology, Materials, Communication Services

Defensive sectors contain: Consumer Staples, Energy, Healthcare, Utilities. Any past performance is not necessarily a guide to future performance.

Source: MSCI and FactSet as of 31 December 2021.

Performance review

CY 2021 and YTD 2022

Page 13

31-Dec-21	Q4 Return	1 YR Return	2 YR (AR) Return	ITD (AR) Return
LF Wales PP Global Opportunities Equity Fund (GROSS)	5.2	19.4	16.2	16.1
LF Wales PP Global Opportunities Equity Fund (NET)	5.2	19.1	15.8	15.7
MSCI AC World Index Net	6.2	19.6	16.1	15.5
Excess Returns (GROSS)	-1.0	-0.2	0.1	0.6

28-Jan-22	QTD Return	1 YR Return	2 YR (AR) Return	ITD (AR) Return
LF Wales PP Global Opportunities Equity Fund (GROSS)	-4.0	12.9	12.4	14.0
MSCI AC World Index Net	-5.6	11.8	11.4	12.8
Excess Returns (GROSS)	1.6	1.0	1.0	1.2

Source: Russell Investments as at 31 December 2021 and 28 January 2022.
 Notes: Inception: COB 14 February 2019. Since Inception and 2 year Performance is Annualised.
 Any past performance is not necessarily a guide to future performance.
 Excess return target: 2% in excess of the Fund benchmark (gross of fees) over the longer term.

Performance

As of 28 January 2022

Page 132

28-Jan-22	Benchmark	Actual Allocation	ITD (AR) Return	ITD (AR) Index	ITD (AR) Excess	Inception Date	Current Day Value at end 28-January-2022
Numeric Low Vol	MSCI World Net	8.50%	6.4	13.9	-7.4	14-Feb-19	280.2mm
Numeric Core	MSCI World Net	8.60%	20.5	17.9	2.6	22-Oct-20	282.6mm
Morgan Stanley	MSCI AC World Index Net	9.30%	16.2	12.8	3.3	14-Feb-19	305.9mm
Sanders	MSCI AC World Index Net	18.00%	18.9	12.8	6.1	14-Feb-19	593.3mm
Jacobs Levy	Russell 1000 Index Net 30%	15.20%	20.2	16.8	3.4	14-Feb-19	501.7mm
NWQ	Topix Net	5.20%	1.2	4.9	-3.7	14-Feb-19	170.1mm
Nissay	Topix Net	4.70%	-6.1	-8.5	2.4	09-Dec-21	155.8mm
SW Mitchell	MSCI Europe Net	10.20%	15.1	8.8	6.3	14-Feb-19	337.2mm
Oaktree	MSCI Emerging Markets Net	15.60%	7.2	5.4	1.8	14-Feb-19	513.3mm
Total	MSCI AC World Index Net	100.00%	14	12.8	1.2	14-Feb-19	3,296.1mm

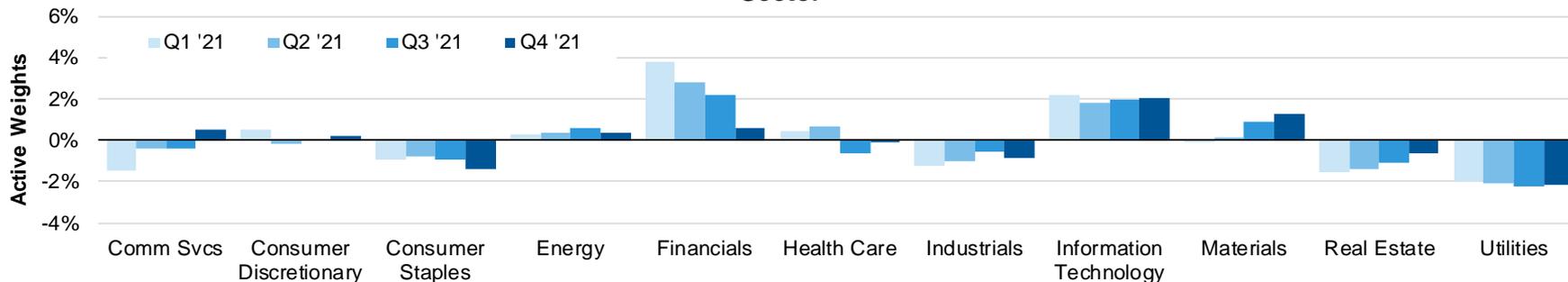
Source: SS&C and FactSet, Russell Investments performance team estimates as at 31 December 2021

Note: Performance is gross of fees in GBP. Since inception is annualised and calculated from COB 14th February 2019. Model manager performance might not be the same as live fund performance.

Portfolio positioning

Sector, Region and Factors

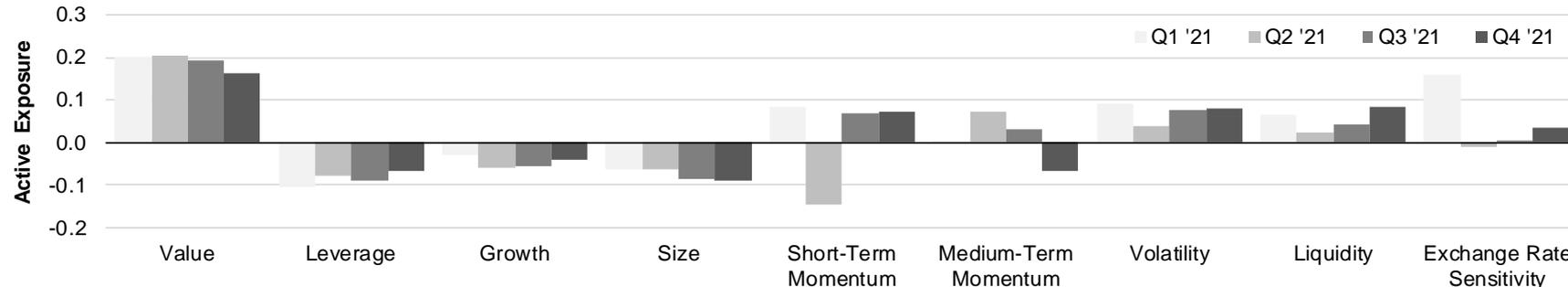
Sector



Region



Factor



Responsible Investing

Page 134



Our global commitment to responsible investing

Key Statistics

7 Years of ESG integration	37 Global ESG specialists ¹	\$49 billion* Global assets in ESG approach	85 Years in business	ESG Score for all recommended products	Stewardship codes Global application of and commitment to the UK and Japan Stewardship Codes
Since 2009 UN-PRI signatory	A / A+ By the UNPRI annual assessment ²	94,598 Proxy votes made at 9,547 meetings in 2020 ³	Proprietary investment tools and frameworks	52 years in institutional investment consulting / manager research	10,810 Votes against management ³

Page 135

Signatory of:



¹ Includes proxy voting and engagement committee, as at December 2021

² Russell Investments received an A or A+ rating across all categories evaluated in 2020. Russell Investments' Full 2020 PRI Assessment and Transparency Report as well as the PRI methodology can be found at <https://russellinvestments.com/uk/corporate-responsibility/responsible-investing>.

³ Russell Investments' 2020 Proxy and Engagement Report.

Source: Russell Investments as at 31 August 2021. *Global assets in ESG approach as at 30 June 2021. ESG risk exposures or rankings are not exclusive to ESG products and do not imply any ESG characteristics or criteria within the products covered in the communication'

Firm-wide holistic ESG integration

We integrate ESG into our practices and processes

Page 136



Source: Russell Investments, for illustrative purposes only.

Net-zero carbon emissions goal

NET ZERO BY
2050



Page 137

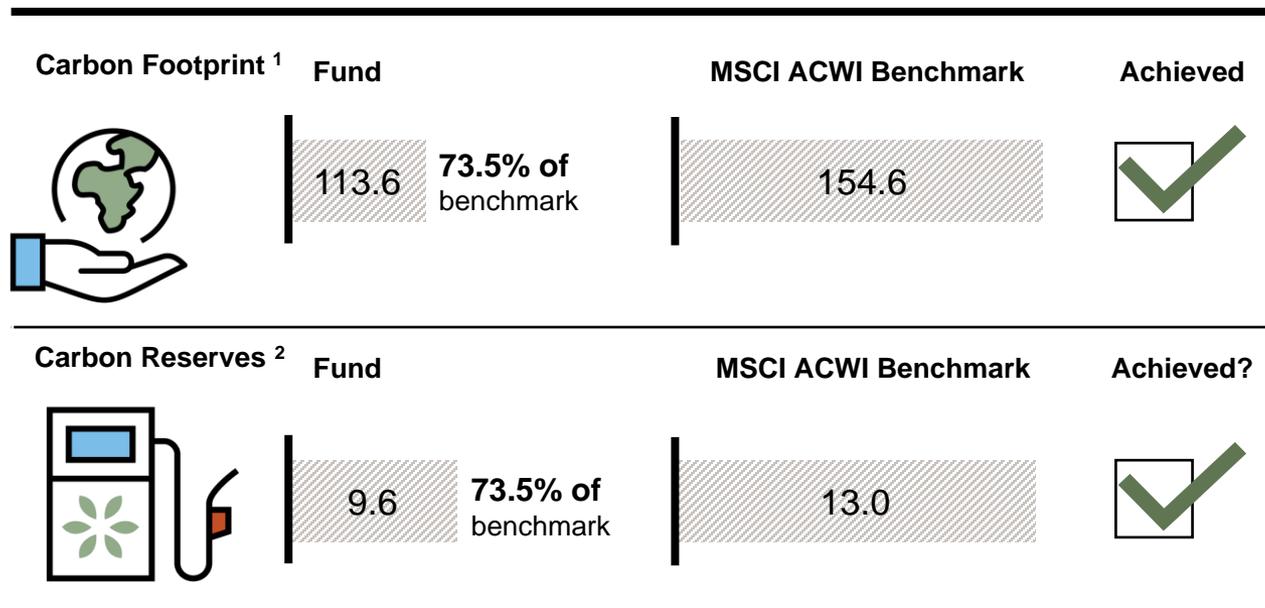
2050 net-zero carbon emissions for its investment portfolios globally

Member of the Net Zero Asset Managers Initiative

2030 carbon neutral for global business operations

Source: Russell Investments, as at 21 April 2021

EPI & Decarbonisation Summary



¹ We define relative carbon footprint as Scope 1 (direct) carbon emissions plus Scope 2 (electricity consumption) carbon emissions measured in metric tons of carbon dioxide equivalent (CO₂-e), divided by company revenue (USD).

² We refer to relative carbon reserves as the asset relative fossil fuel reserves of a company. Specifically it is defined as: Fossil fuel reserves (m tonnes) divided by total company assets (USD).

Calculation Notes

- Scores are calculated for the EPI part of the fund only. It does not include the futures or liquidity reserve.
- Scores are weighted average score divided by coverage for carbon footprint for both the fund and benchmark.
- The carbon footprint score is below the 75% target as we always aim for a little more than the limit to give a buffer on the score between rebalances.

Implementing Decarb for the WPP funds

Without compromising the underlying investment engine

DECARBONISATION



↓ ≥ 25% LOWER
CARBON
FOOTPRINT
RELATIVE TO THE
BENCHMARK



↓ ≥ 25% LOWER
FOSSIL FUEL
RESERVES
RELATIVE
TO THE
BENCHMARK



TARGETED
EXCLUSIONS OF
COAL REVENUES
GENERATING
COMPANIES

- The three approaches above are used on the Emerging Market and Global Opportunities Portfolios with an aim to maintain a low tracking error versus the managers
- Meaning both funds will help you achieve your decarbonisation goals while balancing manager alpha to still deliver you consistent positive returns

Fund Review – Emerging Market Equity Fund

Page 140



WPP Emerging Market Equity Sub-fund

Aim: Deliver **stable excess returns**, offer access to a range of complementary specialist managers.



ENSURING LOW CORRELATIONS WITH GLOBAL OPPORTUNITIES

Providing deeper access to mid- and smaller capitalisation stocks compared to global opportunities



ADOPTION OF A CHINA SPECIALIST

China has an increasing weight in the EM index and is a broad market suitable for active management



IMPLEMENTING VIA EPI & DECARBONISATION

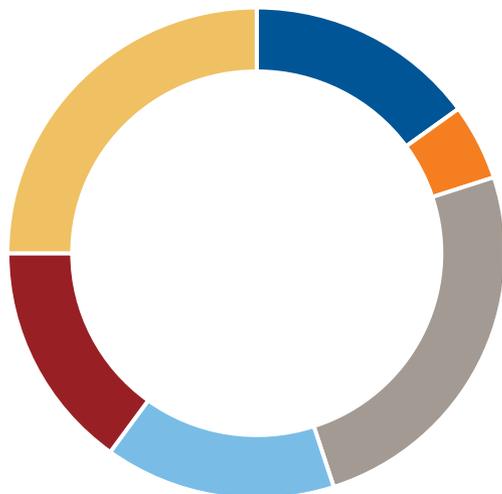
Utilising EPI framework:

- Trading efficiencies
- Manager access at competitive fees and below typical account size thresholds
- De-carbonisation from launch

Manager Line Up

6 high conviction manager strategies

Page 142

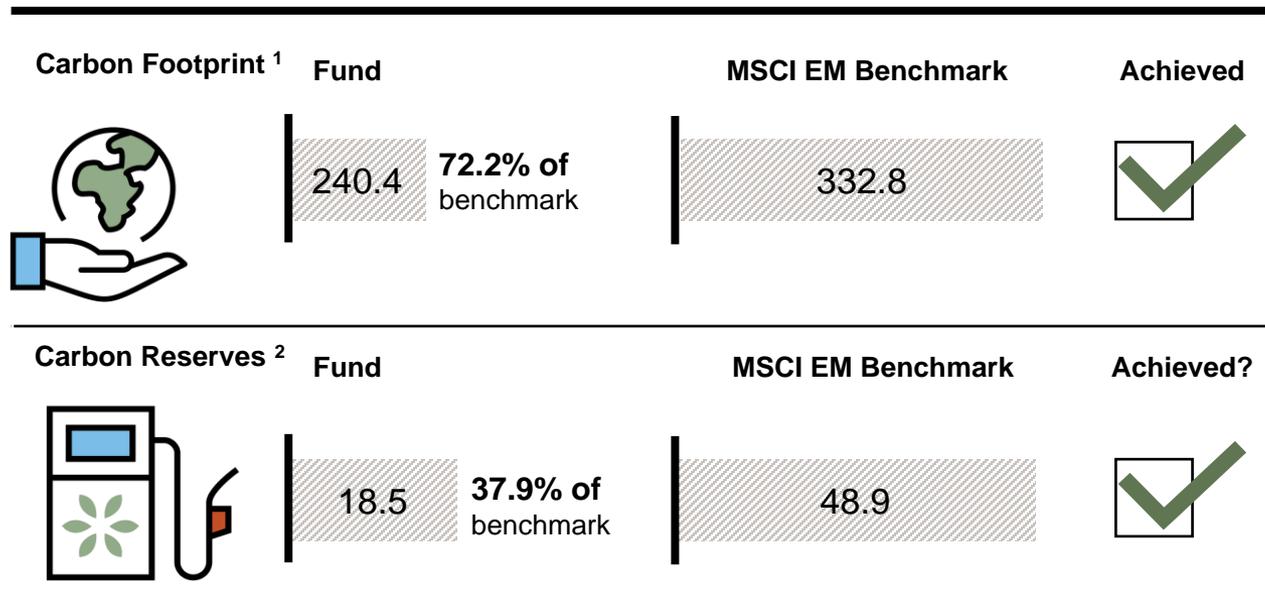


Managers	Investment Focus	%
Artisan	Growth With a Mid-Cap tilt	12%
Bin Yuan	China Specialist	5%
Barrow Hanley	Relative Value Mid Cap Tilt	22%
Axiom	Earning Momentum	23%
Numeric	Systematic Value and Momentum	16%
Oaktree	Pragmatic Value	22%

31-Dec-2021	MTD	Since Inception
LF Wales PP Emerging Markets Equity Fund (GROSS)	0.03	-1.05
MSCI Emerging Markets Index Net	-0.49	-1.10
Excess Returns (GROSS)	0.52	0.05

Source: Russell Investments as at 31 December 2021. Notes: Inception: COB 29 October 2021. Excess return target: 2% in excess of the Fund benchmark (gross of fees) over the longer term. Fund returns are sourced from SS&C, index returns from Confluence. All returns are stated in GBP. Any past performance is not necessarily a guide to future performance.

EPI & Decarbonisation Summary



¹ We define relative carbon footprint as Scope 1 (direct) carbon emissions plus Scope 2 (electricity consumption) carbon emissions measured in metric tons of carbon dioxide equivalent (CO₂-e), divided by company revenue (USD).

² We refer to relative carbon reserves as the asset relative fossil fuel reserves of a company. Specifically it is defined as: Fossil fuel reserves (m tonnes) divided by total company assets (USD).

Calculation Notes

- Scores are calculated for the EPI part of the fund only. It does not include the futures or liquidity reserve.
- Scores are weighted average score divided by coverage for carbon footprint for both the fund and benchmark.
- The carbon footprint score is below the 75% target as we always aim for a little more than the limit to give a buffer on the score between rebalances.

Sustainable Active

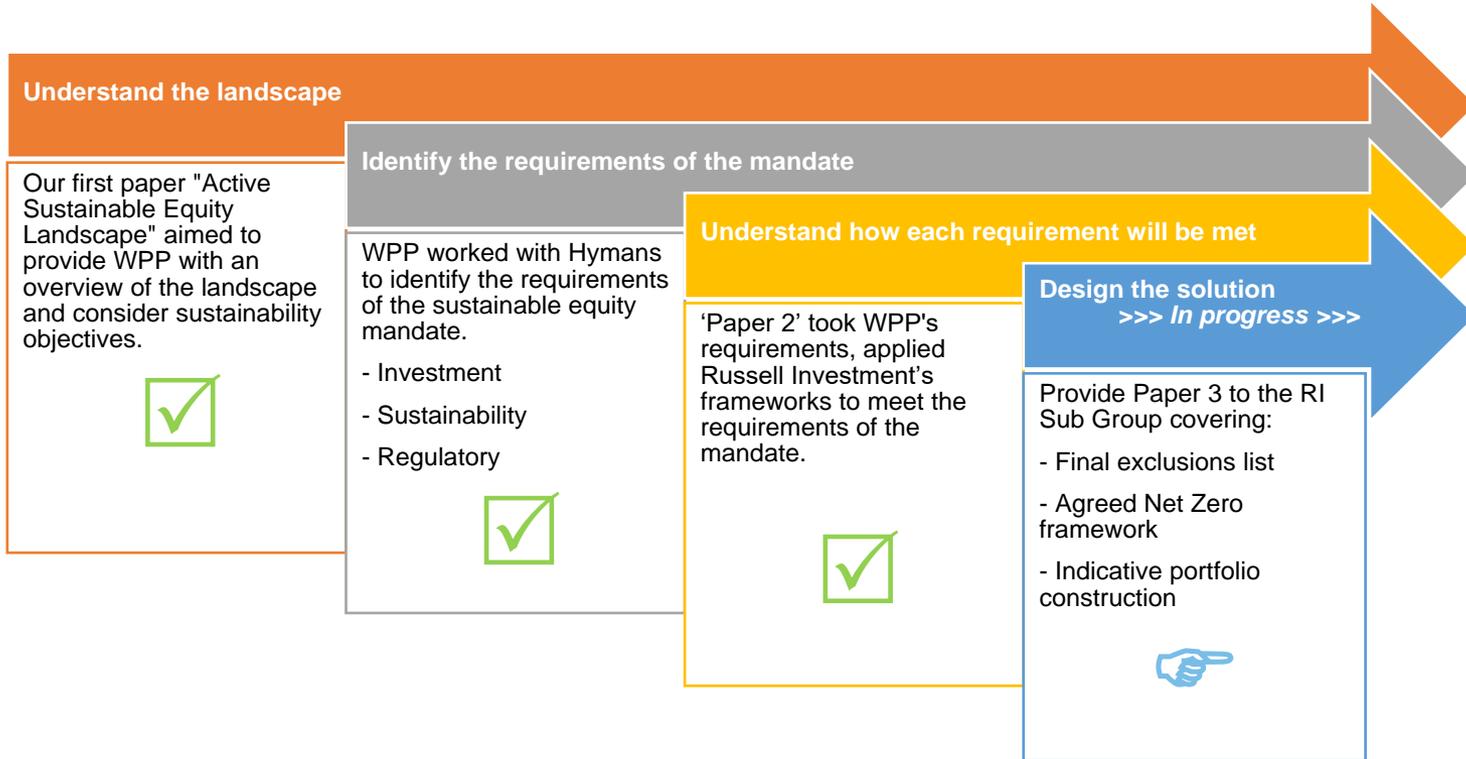
Page 144



Summary

Sub-fund construction: Progress to date

Page 145



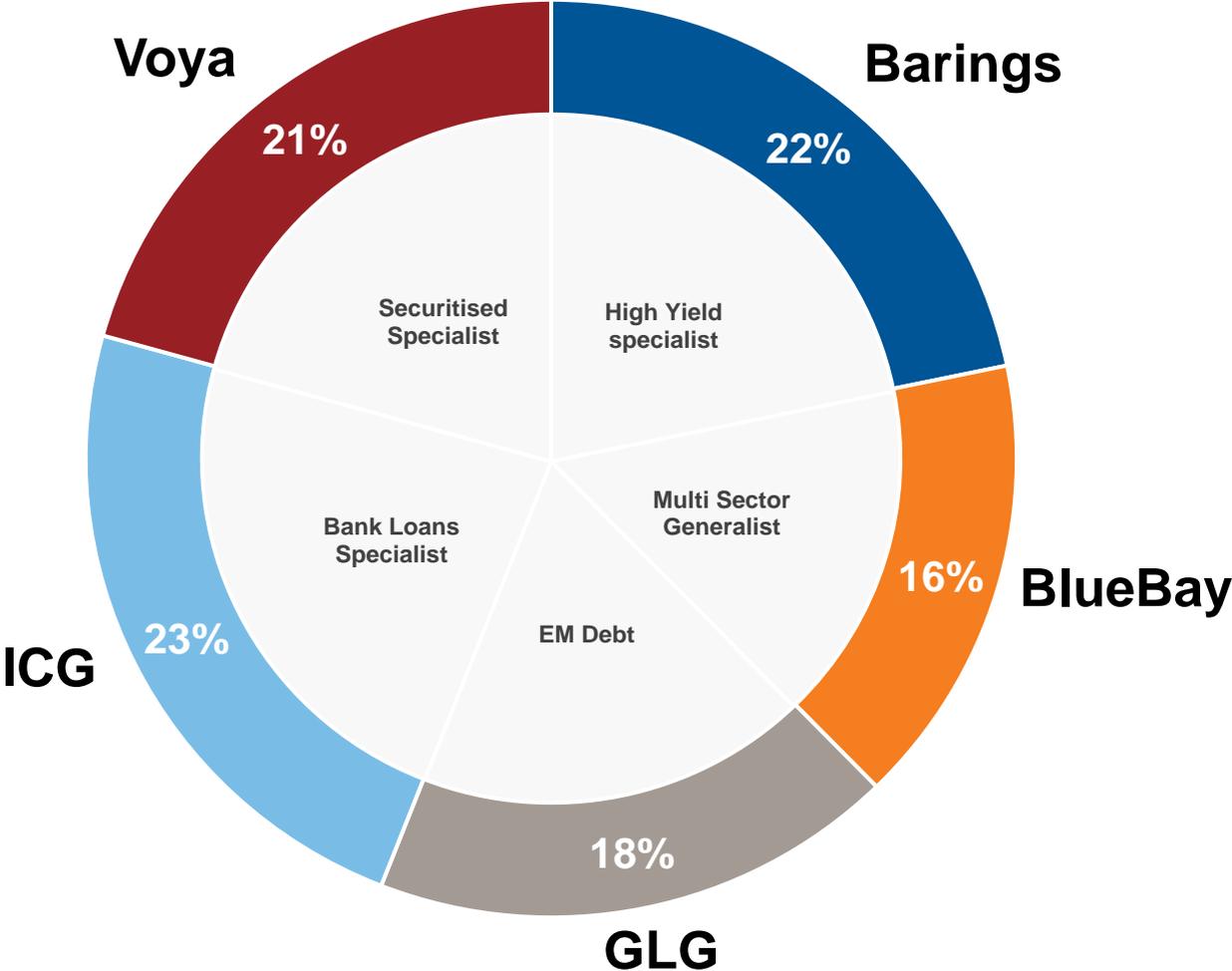
Source: Russell Investments for illustrative purposes only

Fund Review – Multi Asset Credit Fund

Page 146



Multi Asset Credit Fund (MAC)



Page 147

Fund Summary

The Multi Asset Credit Fund is made up of one generalist and is complemented by four specialist managers that deliver value-add through security selection, resulting in more consistent expected risk-adjusted returns. The Fund captures various credit risk premia by investing in a wide range of credit instruments, including bank loans, high yield corporates, emerging market debt and asset/mortgage backed securities.

Multi Asset Credit Fund

Performance Review

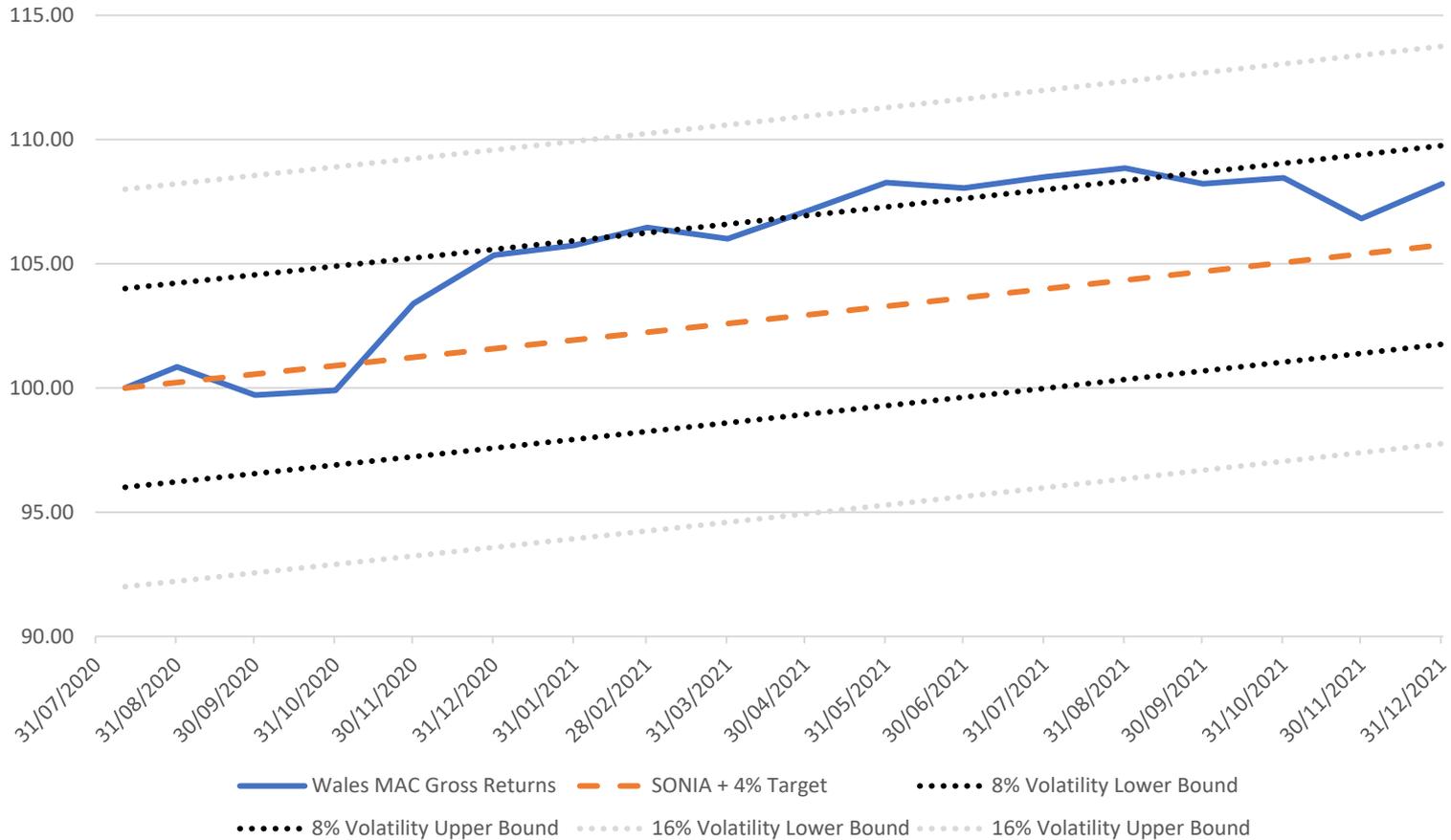
Fund	Q4 2021	1 Year	Since Inception
LF WPP Multi Asset Credit Fund (Gross)	-0.01	2.72	5.85
LF WPP Multi Asset Credit Fund (Net)	-0.10	2.35	5.47
GBP SONIA plus 4%	1.03	4.11	4.11

Return target: GBP SONIA plus 4% (net of fees) over the longer term.

Multi Asset Credit Fund

Performance Through Time

Page 149



Multi Asset Credit Fund

Performance Review

Page 150

Manager	Benchmark	Allocation	ITD Return	ITD Index	ITD Excess	Inception Date
BlueBay	Libor 3M USD RATE	16%	6.13	0.18	5.95	19-Aug-20
Barings	Bloomberg Barclays Global High-Yield Bond Index	22%	8.06	5.25	2.82	19-Aug-20
Voya	Libor 3M USD RATE	21%	4.18	0.18	4.00	19-Aug-20
GLG	JPM EMBI Global	18%	-0.26	0.73	-0.99	19-Aug-20
ICG	Libor 3M USD RATE	23%	12.66	0.18	12.48	19-Aug-20

Market Outlook

Page 151



Russell Investments' global market outlook

The Great Moderation

Page 152

▪ Cycle outlook remains positive

- Moderation in growth, inflation and investment returns
- Cycle is positive for global equities, above trend growth likely in 2022
- Growth leadership to rotate away from the United States
- Bond yields can rise further, but are close to fair value
- Fed to tighten by less than market expectations

▪ Sentiment is neutral

- Omicron has created caution

▪ Key risks

- Omicron
- China slowdown
- Inflation remains high
- Central bank mistakes

Source: Russell Investments. January 2022.

Economic Scenarios

Recession risk is lower than normal, resulting in a positive skew to the outlook

Page 153

 Bull (25%) <hr/> <p>Strong recovery following vaccine distribution. Spare capacity exhausted by mid-2022. Fed tightens as least 3 times in 2022 and signals more to come.</p>	 Neutral (60%) <hr/> <p>Recovery slows in 2022 but growth remains above trend. Consumer caution and fiscal drag are headwinds. Spare capacity lowers inflation and central banks raise rates only gradually.</p>	 Bear (15%) <hr/> <p>Virus variants evade vaccines. Central banks tighten too early. Consumer damage from energy prices. China slowdown creates spillovers to other economies.</p>
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Source: Russell Investments. January 2022.

Appendix

Page 154

Performance

As of 31 December 2021

Page 155

31-Dec-21	Benchmark	Actual Allocation	ITD (AR) Return	ITD (AR) Index	ITD (AR) Excess	Inception Date	Value at end 31-Dec-2021
Numeric Low Vol	MSCI World Net	7.00%	7.5	16.8	-9.3	14-Feb-19	240.0mm
Numeric Core	MSCI World Net	8.70%	27.3	25.6	1.8	22-Oct-20	297.2mm
Morgan Stanley	MSCI AC World Index Net	10.20%	22.9	15.5	7.4	14-Feb-19	351.5mm
Sanders	MSCI AC World Index Net	17.70%	20.7	15.5	5.2	14-Feb-19	606.3mm
Jacobs Levy	Russell 1000 Index Net 30%	16.60%	22.3	20.1	2.2	14-Feb-19	568.5mm
NWQ	Topix Net	8.90%	1.8	6.9	-5.1	14-Feb-19	304.1mm
Nissay	Topix Net	0.90%	-5	-3.8	-1.2	09-Dec-21	31.6mm
SW Mitchell	MSCI Europe Net	10.10%	16.6	10.9	5.7	14-Feb-19	346.1mm
Oaktree	MSCI Emerging Markets Net	15.10%	7.5	6.4	1.1	14-Feb-19	517.8mm
Total Gross	MSCI AC World Index Net	100.00%	16.1	15.5	0.6	14-Feb-19	3,433.6mm
Total Net	MSCI AC World Index Net	100.00%	15.7	15.5	0.3	14-Feb-19	

Source: SS&C and FactSet, Russell Investments performance team estimates as at 31 December 2021

Note: Performance is gross of fees in GBP. Since inception is annualised and calculated from COB 14th February 2019. Model manager performance might not be the same as live fund performance.

Important information and disclosures

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Any past performance figures are not necessarily a guide to future performance. Some investments/bonds may not be liquid and therefore may not be sold instantly. If these investments must be sold on short notice, you might suffer a loss.

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RM-00863



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 9 th February 2022
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

EXECUTIVE SUMMARY

An investment and funding update is on each quarterly Committee agenda.

There are separate agenda items on asset pooling in Wales, investment performance and the funding and flight path risk management framework. This update includes matters that are mainly for noting, albeit comments are clearly welcome.

This report provides updates on the following items:

- Government Actuary Department (GAD) Section 13 Report on 2019 LGPS Valuations (1.05)
- The Business Plan 2021/22 – all projects are currently complete or on track
- Risk register - there have been no changes to the current risks.
- Delegated responsibilities – this details the delegated responsibilities which have been completed by officers since the last Committee meeting.

RECOMMENDATIONS

1	That the Committee consider and note the update, and provide any comments.
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REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2021/22. Key task F4 is complete and tasks F1 to F3 are mainly currently on target with further information is as follows:</p> <ul style="list-style-type: none"> • F1 (Implement Responsible Investment Strategic Priorities) – the six areas highlighted in the business plan are all progressing. In particular: <ul style="list-style-type: none"> ○ WPP has submitted its application for the new Stewardship Code and is awaiting feedback. This will be an integral part of the Fund’s submission. ○ The WPP RI group continues to work with individual Fund Consultants, Hymans and Russell Investments to progress the inclusion of a Sustainable Active Equity Sub Fund for WPP ○ Further investments are being identified and appraised in relation to local/impact opportunities. (see 1.08) ○ In relation to reporting against TCFD, the consultation that was due has been further delayed and the expected guidelines for LGPS will unlikely be in place for 1st April 2022 as originally anticipated. • F2 (Climate Change) – Net Zero target and interim targets were approved at the November 2021 Committee. The Fund is continuing to work with its Consultants to implement the Roadmap. <ul style="list-style-type: none"> ○ F3 – Ongoing Asset Pooling Implementation and Transition – see separate Asset Pooling and WPP Annual Updates. The key point to note is that the tender process for the appointment of Private Market allocators is ongoing as explained further in the Asset Pooling and WPP Annual Updates.
1.02	As expected F1, F2 and F3 continue into 2022/23 and will be included in the new business plan which will be brought to March Committee for approval.
1.03	<p>Current Development and News</p> <p><i>Productive Capital/ Impact Investing in the LGPS</i></p> <p>The recent Scheme Advisory Board (SAB) Responsible Investment Advisory Group met on 5th January and a discussion was held around how the LGPS are currently approaching Impact and Local investments. The Department for Levelling Up, Housing & Communities (DLUHC) will issue their Levelling Up White Paper in the coming weeks which will provide more details on the expectations in pension scheme investments in these areas. It has been suggested that as many Funds have already been investing locally that the LGPS should be prepared to share examples of</p>

	what they are already doing. Work is ongoing with Funds and the Local Government Association (LGA) to progress this further.
1.04	The Fund has been asked by Foresight Group, the manager for the Regional Funds Clwyd are invested in, to participate in a panel discussion covering Local Investing at the PLSA Annual Conference in June 2022.
1.05	<p><i>Clwyd Pension Fund exposure to industrial livestock companies</i></p> <p>There has been a report recently by NGOs Feedback and World Animal Protection which detailed that the UK's local authority pension funds hold £238million of investments in international industrial livestock companies and argued that this investment is contributing to global climate change, deforestation, and biodiversity loss. As a result, councils are being called on to divest this money as "Industrial livestock corporations are simply not compatible with a climate-safe future and like fossil fuels, have no place in the pension portfolio of a climate-conscious local authority."</p>
1.06	<p>Clwyd Pension Fund has been highlighted in the report as an example because it states that £10.3million (0.57%) of the council's pension pot is invested in industrial livestock. This figure was estimated from holdings provided for a Freedom of Information Request in March 2021 for fossil fuel exposure and estimations were made which distorted those figures at the time. The report showed the top 15 industrial meat and dairy companies with the largest investments from UK local authority pension funds.</p> <p>The Fund has contacted both Russell Investments and BlackRock who manage the listed equity portfolios and was provided with the following information as at November 2021:</p> <ul style="list-style-type: none"> • BlackRock ACS World ESG Fund held 2 securities representing 0.36% of the index, so approximately £490k of the £136.1m invested. • Russell Investments had exposure to 4 securities across the Global and Emerging Market Equity Funds totalling £2.9m of the £360.7m invested. <p>Therefore, based on that information, this only equates to 0.67% of the total equity portfolio and 0.14% of the total Fund.</p>
1.07	As Members are aware, the Fund is now in discussions with WPP to provide a Sustainable Equity sub-fund which will assist the Fund with its net zero target ambition. Allocations to any companies which contribute to greenhouse gas emissions in any sectors will be part of engagement discussions to manage emissions down effectively in line with any agreed net zero trajectory.
1.08	<p><i>GAD Section 13 Report on 2019 LGPS Valuations</i></p> <p>On 16th December 2021, the DLUHC published the GAD report on the 2019 LGPS valuations for England and Wales as required under Section 13 of the Public Service Pension Schemes Act 2013. The report was</p>

	<p>expected to be published in the summer but was delayed pending discussions between various stakeholders and ministerial time constraints. This is the second formal Section 13 report, with Section 13 applied for the first time to the LGPS valuations as at 31 March 2016.</p>
1.09	<p>The remit of the Section 13 valuation is to test the premise of achieving solvency and long term cost efficiency to ensure that appropriate funding plans are put in place for all LGPS Funds in England and Wales. Section 13 requires the GAD to report on whether the following aims are achieved:</p> <ul style="list-style-type: none"> • Compliance • Consistency • Solvency • Long term cost efficiency <p>In the main it was confirmed that all the key objectives for the LGPS were met but noted some suggestion for further improvement. The report also notes a number of key areas for consideration for the 2022 valuations e.g. consideration of climate change.</p>
1.10	<p>The KPIs for the Clwyd Pension Fund are attached as appendix 2 along with explanatory notes relating to each measure applied by the GAD in their assessment. The Fund's 2019 actuarial valuation funding strategy was given a clean bill of health and was rated "green" for all of the KPIs. A summary of the outcomes from the report are also attached as appendix 3.</p> <p>The Clwyd Pension Fund has a funding level of 103% on the SAB's standardised basis for comparing all Funds. This compares to a funding level of 91% on the Fund's local funding basis at 31st March 2019.</p>
1.11	<p>Policy and Strategy Implementation and Monitoring</p> <p>The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 4.</p> <p>The Advisory Panel also receive reports from the following Clwyd Pension Fund officer/adviser working groups:</p> <ul style="list-style-type: none"> • Tactical Asset Allocation Group (TAAG) • Cash and Risk Management Group (CRMG) • Private Equity and Real Assets Group (PERAG) <p>Any decisions arising from these meetings which have been agreed using delegated responsibilities are detailed in Appendix 4.</p>
1.12	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 4 updates the Committee on the areas of delegation used since the last meeting. To summarise:</p> <ul style="list-style-type: none"> • Cash-flow forecasting continues to be monitored through the Cash and Risk Management Strategy.

- Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).
- Commitments to Private Market Investments in line with the strategy and recommendations agreed with Mercer, the Fund Consultant, more details are provided in 1.14.

Asset Class	Fund	Commitment
Private Equity	Cap Vest Fund V	€17m (£15m)
	Oakley Capital Fund V	€16m (£14m)
	Astorg Fund VIII	€17m (£15m)
	Permira Fund VIII	€17m (£15m)
Impact	Circularity European Growth Fund II	€12m (£10m)
	Generation IM Sustainable Solutions Fund IV	\$14m (£10m)
Infrastructure	Brookfield Global Transition Fund	\$14m (£10m)
	Infravia Fund V	€10m (£9m)
	Capital Dynamics Clean Energy SMA	£50m

1.13 **Private Market Allocations**

As reported to previous Committees, due to the WPP currently running a tender for Allocators to implement private markets, Mercer as the Fund's investment consultant have been working with officers to determine the Fund's requirements for infrastructure and private debt in addition to private equity and impact opportunities until they are transitioned to WPP. This work includes identifying potential managers on a sustainable basis.

1.14

As part of this process, Mercer share relevant reports on their research views and full due diligence on any recommended managers for the Fund officers to consider and discuss. From there, meetings are conducted with the recommended managers and Fund officers to discuss the mandates in more detail and facilitate any further information the Fund may require. As can be seen from the table above, the Fund and Mercer have been busy making new allocations. A brief summary of the investments is shown below. All are highly rated managers by Mercer including ESG credentials.

CapVest Fund V

A private equity manager raising €2.95bn, focussed on a mid-market buyout strategy in Europe and targeting investments in consumer staples, healthcare and essential services.

Oakley Capital Fund V

A private equity manager raising €2.5bn, focussed on a mid-market buyout strategy in Europe and targeting complex deals in consumer technology and education.

	<p>Astorg Fund VIII A private equity manager raising €6.5bn, focussed on an upper mid-market buyout strategy in Europe and targeting deals in industrials, healthcare, technology and business services.</p> <p>Permira Fund VIII A private equity manager raising €15bn, focussed on a large controlled buyout strategy in Europe, North America and Asia, targeting deals in consumer, healthcare, services and technology sectors.</p> <p>Circularity European Growth Fund II An impact manager in the private equity space raising €150m, focussed on investing in growth stage circular economy companies in Europe.</p> <p>Generation IM Sustainable Solutions Fund IV An impact manager in the private equity space raising \$1.25bn, focussed on investing globally in growth investments with both environmental and social impact.</p> <p>Brookfield Global Transition Fund An infrastructure manager raising \$7.5bn targeting Paris Climate Agreement aligned impact investments in OECD nations (Organisation for Economic Co-operation and Development) across three main pillars; business transformation, clean energy and sustainable technology.</p> <p>Infravia European Fund V An infrastructure manager raising €3.bn which will focus on mid-market, core-plus / value added opportunities in the European market.</p> <p>Capital Dynamics Clean Energy Separate Managed Account (SMA) Capital Dynamics is a manager with a relationship with the Clwyd Pension Fund spanning decades across many Private Market mandates. This mandate will focus on direct clean energy projects in Wales. More details are provided in agenda item 9.</p>
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2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 5 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	<p>There have been no additional risks added to the register since the last Committee and all of the risks have remained the same as reported to the December 2021 Committee. Of these, most remain on target and the remainder are one step away from the target impact or likelihood, which is mainly due to the uncertainty around markets.</p> <p>The risk which is furthest from target is risk four, which is that the value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. The target for this risk is longer term and now that the Interim Funding review has been completed, this and other risks will be reassessed.</p> <p>The most significant risk (but still just one step away from target) is risk nine which is that the Fund's long-term Investment Strategy fails to deliver on its ambition or objectives as a responsible investor, due to either responsible investment not being properly considered or WPP does not provide the Fund with the tools to enable implementation of its RI policies. Whilst the Fund is addressing this in a number of ways, due to the magnitude of the risk, it is still not appropriate to consider this on target.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 – 2021/22 Business plan update Appendix 2 – GAD Section 13 Report, Clwyd Pension Fund KPI's Appendix 3 – GAD Section 13 Report, Summary of Outcomes Appendix 4 – Delegated Responsibilities Appendix 5 – Risk dashboard and register – Investments and Funding</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None.</p> <p>Contact Officer: Debbie Fielder, Deputy Head, Clwyd Pension Fund Telephone: 01352 702259 E-mail: Debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	(a) 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

- (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.
- (c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund
- (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.
- (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.
- (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund’s Investment Consultant and monitored by AP.
- (g) **In House Investments** – 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.
- (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **Funding & Risk Management Group (FRMG)** - 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.
- (l) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

(m) **Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.

(n) **Department for Levelling Up, Housing & Communities (DLUHC)** – supports communities across the UK to thrive, making them great places to live and work.

A full glossary of Investments terms can be accessed via the following link.

<https://www.schroders.com/en/uk/adviser/tools/glossary/>

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Business Plan 2021/22 to 2023/24 – Q4 Update

Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
x	Original item where the period has been moved or task deleted since original business plan

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2021/22 Period				Later Years	
		Q1	Q2	Q3	Q4	2022/ 23	2023/ 24
F1	Implement Responsible Investment Strategic Priorities	x	x	x	x	x	x
F2	Climate Change	x	x	x	x	x	
F3	Ongoing Asset Pooling Implementation and Transition	x	x	x	x	x	x
F4	Interim Funding Review and FSS policy update	x	x	x	x		

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Implement Responsible Investment Strategic Priorities

What is it?

The Fund agreed its updated Responsible Investment policy in February 2020 with five key priorities which are as follows:

- Evaluate and manage carbon exposure
- Identify sustainable investment opportunities
- Improve public disclosure and reporting
- Active engagement on ESG risks
- Comply with the FRC Stewardship Code.

Alongside its Investment Strategy Review in 2019/20 the Fund reviewed and revised its Responsible Investment Policy. The Policy was split into a number of key areas setting out the Fund's approach to being a Responsible Investor. The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to do it all in one go. It has therefore decided to set the following strategic priorities for its work over the three years from 2020/1 to 2023/4:

- **Evaluate and manage carbon exposure**
 - This will include measuring the Fund's existing exposure to carbon within its investment portfolio, and once this has concluded, set targets to reduce this over the coming five years.
- **Identify sustainable investment opportunities**
 - The Fund's new Investment Strategy has an allocation to Social/Impact investments, or investments that aim to make a positive social or environmental impact. The Fund already has a number of investments in this area and will be looking to add to these.
- **Improve disclosure and reporting**
 - The Fund will be working to improve transparency and reporting. An analysis of the impact of Climate Change on the Fund's Investment Strategy will form part of this work.
- **Active Engagement on ESG risks**
 - To work proactively with WPP and LAPFF¹ to actively engage with the Fund's underlying investments.
- **FRC Stewardship Code**
 - The Fund is currently a signatory to the Code; however a new Code was launched in 2019. The aim is to assess the potential to remain a signatory.

In addition to these priorities, the Fund is aware that the Scheme Advisory Board and MHCLG will be issuing revised guidance on Responsible Investing in 2021, and it will be important to review the Fund's policy and update if necessary to ensure it remains relevant and compliant.

¹ LAPFF is the Local Authority Pension Fund Forum, which aims to protect the long-term interests of beneficiaries through promoting high standards of corporate governance and responsibility.

Timescales and Stages

Continue to work on the Fund's strategic priorities for Responsible Investment	2021/22 to 2022/23
Identify sustainable investment opportunities relating to social/impact	2021/22 to 2023/24
Assess potential for investing locally – consider Regional Growth Bid	2021/22
Review and revise RI Policy when national guidance is issued	2021/22
Work with WPP to develop and submit application for new Stewardship Code	2021/22
Work with WPP to develop TCFD compliant reporting	2021/22 to 2022/23

Resource and Budget Implications

Estimated costs for the implementation are contained within existing plans/budgets including the costs of external consultants.

F2 – Climate Change

What is it?

As part of the Fund's revised Responsible Investment Policy there is a section where the Fund defines its approach to Climate Change. The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders.
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based divestment is appropriate to facilitate the move to a low carbon economy.
- As well creating risk, it also presents opportunities to make selective investments that achieve the required returns whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

As part of its desire to address the risk around Climate Change the Fund is planning to set out a roadmap to move from the current position to a more sustainable future strategy. This plan will include Carbon footprinting analysis and Climate Change scenario analysis which the Fund has commissioned from Mercer. The Roadmap could include considering a Net Zero Carbon emissions target.

This Roadmap and work program will be delivered over the coming years, and needs to be carried out in conjunction with the WPP plans.

Assessment of Carbon footprinting and Strategic Climate Change scenario analysis results	2021/22 Q1
Consult Committee with proposed roadmap	2021/22 Q2 & Q3
Assess how to implement Committee's views, in conjunction with WPP (including TCFD reporting)	2021/22 Q3 & Q4
Ongoing implementation and monitoring	2022/23

F3 – Ongoing Asset Pooling Implementation and Transition

What is it?

WPP was created to allow the pooling of assets across the Welsh LGPS Funds. The assets are continuing to be transitioned to WPP's Operator and further policies and procedures developed to ensure the proper management of WPP.

The Government (MHCLG) will be producing pooling guidance at some stage in 2021/22, and the Fund and WPP will need to be fully conscious of this, and ensure that it can remain compliant with its requirements.

Governance

WPP has developed a three-year business plan for 2021/2 to 2023/4 which includes the key areas of focus during that period. The Business Plan highlights a significant work program for the pool, and the Clwyd Pension Fund will be working with WPP to deliver these key milestones.

Implementation

COVID-19 related market volatility has affected WPP's transition plans. Market volatility could result in significant increased transition costs, and as such transitions were delayed in 2020/21. It is likely that future transitions may well be impacted.

The Fund will work with WPP to transition remaining assets in coming months and years.

Responsible Investment

The WPP has developed its own Responsible Investment Policy and will be working with the constituent authorities to develop this and implement it appropriately across the launched sub-funds. This will include looking at voting with Robeco as appointed engagement specialist. The Clwyd Pension Fund will look to work with WPP to ensure that WPP's Responsible Investment policies and strategies enable Clwyd's Pension Fund's Responsible Investment Policy to be implemented and enhanced.

Timescales and Stages

Governance	
Consider and implement MHCLG asset pooling guidance	2021/22 to 2022/23
To work with WPP to deliver all aspects of its Business Plan ensure that it remains on track	2021/22 to 2023/24
Provide views to host on WPP operator arrangements and oversight	2021/22
Provide input to preparation for operator market review and re-tender	2021/22 to 2022/23
Ongoing Establishment	
Transition of assets to newly launched sub-funds:	
<ul style="list-style-type: none"> ▪ Emerging Markets 	2021/22 Q2
<ul style="list-style-type: none"> ▪ Private Markets 	2021/22 to 2022/23
<ul style="list-style-type: none"> ▪ Review and develop a mechanism to pool any suitable non-pooled asset e.g. Flight Path 	2022/23 to 2023/24
Responsible Investment	
Work with WPP to ensure that it can support CPF in delivering its own Responsible Investment and Climate Change beliefs and requirements	2021/22 to 2023/24
Feed into development of WPP reporting including ESG and climate change	2021/22 to 2023/24

Resource and Budget Implications

2021/22 and future budgets will include CPF's share of the governance costs managing the pool, and also its share of fees relating to pooled assets. For 2021/22 the estimated cost of governance for CPF in relation to WPP is £130k, which includes an estimated share of the Host Authority costs (£23k), consultant and legal advice direct from WPP (£85k) and the estimated costs CPF expects to bear directly from its own consultants for advice in relation to the WPP (£22k). Any other costs relating to the WPP will be met from within existing budgets.

F4 – Interim Funding Review

What is it?

In advance of the 2022 actuarial valuation, the Actuary will assess the funding position as at 31 March 2021 in order to prepare the Fund and employers for the potential contribution outcomes from the 2022 valuation.

Due to the impact of COVID-19, a number of the Fund's employers will likely suffer impacts on budgets and therefore affordability of contributions in the short and long term. It will therefore be appropriate to consider the key funding metrics which will involve analysing the outlook for returns, the likelihood that average contributions would need to increase at the next valuation and the potential impact of Brexit. This will be crucial in quantifying the financial risk and market changes since the previous valuation. This analysis will assist the Fund to understand employer contribution affordability so that plans can be made considering

the current funding position and the future outlook for returns. This is likely to mean earlier engagement than previously expected for some employers.

As part of the interim review, we will also consider the potential impact that COVID-19 has had on the life expectancy of the membership. This will then be built into the assessment.

Timescales and Stages

Monitoring of funding metrics and risk levels	2021/22 Q1 & Q2
Engagement with employers to assess impact of COVID-19	2021/22 Q3 & Q4
Carry out interim funding review	2021/22 Q3 & Q4
Results and discussion with employers via steering groups	2021/22 Q3 & Q4

Resource and Budget Implications

This exercise will be performed by the Fund Actuary. It is an important exercise for the Fund and will involve input from both the Clwyd Pension Fund Administration and Finance teams. An allowance has been made in the 2021/22 budget for the full interim review.

Section 13 Report 2019 Valuation

Page 173

Clwyd Pension Fund KPIs



Extract of CPF Specifics

Funding Levels:

2019 LOCAL BASIS	SAB STANDARD BASIS
91%	103%

Long Term Cost Efficiency Measures:

MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES				
	Relative considerations		Absolute considerations		
	Deficit Period	Required Return (Rank)	Repayment Shortfall	Return Scope	Deficit Recovery Plan
7.3 (61)	Surplus	3% (35)	Surplus	0.9% (55)	Green

Solvency Measures:

MATURITY (RANK)	SOLVENCY MEASURES				
	Risks already present			Emerging risks	
	SAB Funding Level	Open Fund	Non - Statutory Employees	Asset Shock	Employer Default
7.3 (61)	103%	Yes	4.8%	1.4%	Surplus

Explanatory Terms

Long Term Cost Efficiency Measures

Deficit Period

Implied deficit recovery period calculated on a standardised best estimate basis

Required Return

The required investment return rates to achieve full funding in 20 years' time on a standardised best estimate basis

Repayment Shortfall

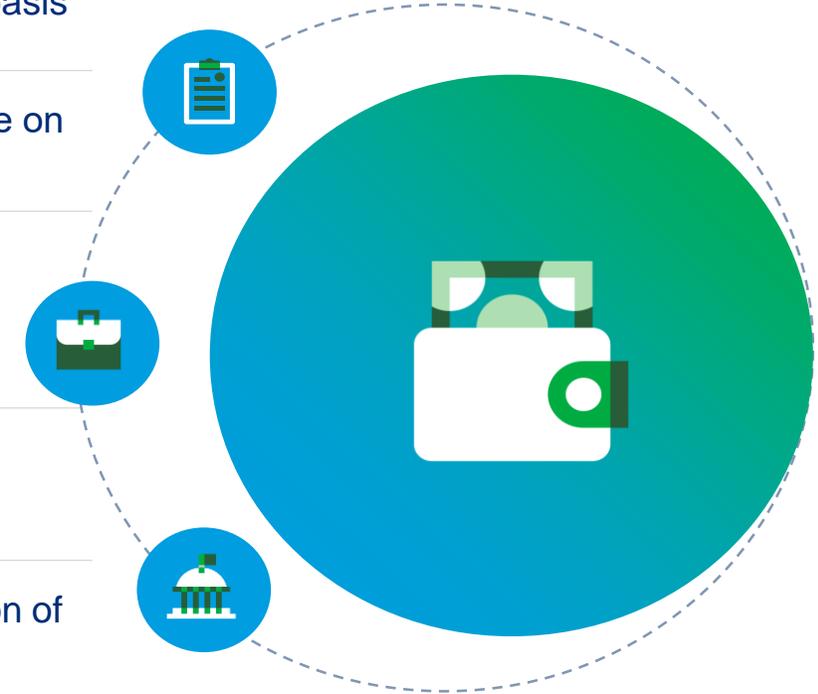
The difference between the actual contribution rate net of GAD's best estimate future service cost and the annual deficit recovery contributions (on a standardised best estimate basis and assuming deficit is paid off in 20 years), as a percentage of payroll

Return Scope

The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Deficit Recovery Plan

Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience



Explanatory Terms Solvency Measures

SAB Funding Level

A fund's funding level using the SAB standard basis

Open Fund

Whether the fund is open to new members

Non-Statutory Members

The proportion of members within the fund who are employed by an employer without tax raising powers or statutory backing

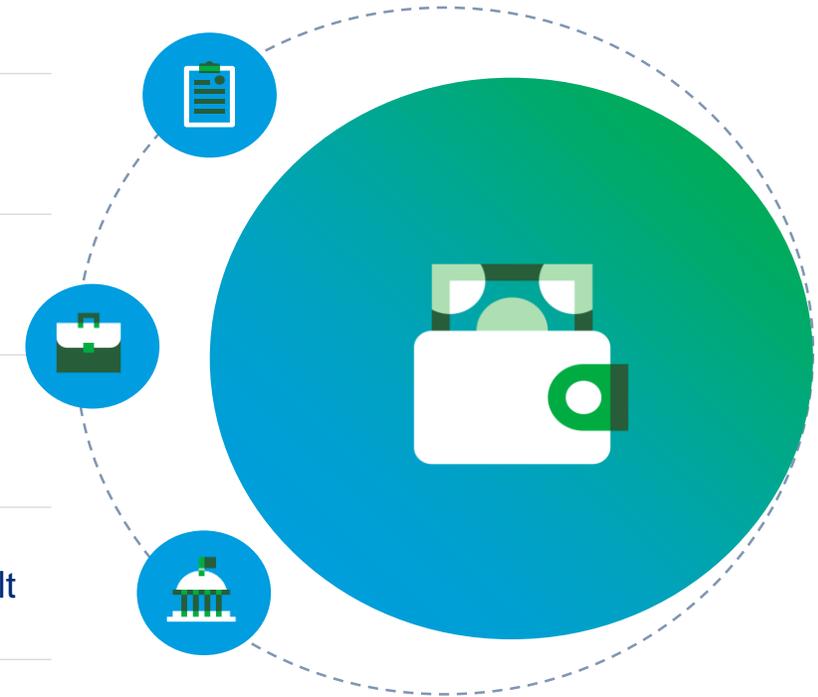
Asset Shock

The change in average employer contribution rates as a percentage of Core Spending Power or financing data after a 15% fall in value of return-seeking assets

Employer Default

The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits

Page 176



Section 13 Report:

<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019>

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Section 13 Report 2019 Valuation

Summary of Outcomes

Page 179

Clwyd Pension Fund



Summary of Outcomes

Section 13 requires the GAD to report on whether the following aims are achieved:

Compliance

the report noted that this objective has been met

Consistency

the report noted that in general whilst there appears to have been an improvement in consistency in the key assumptions there is still progress needed and there has been little progress in relation to academy conversions

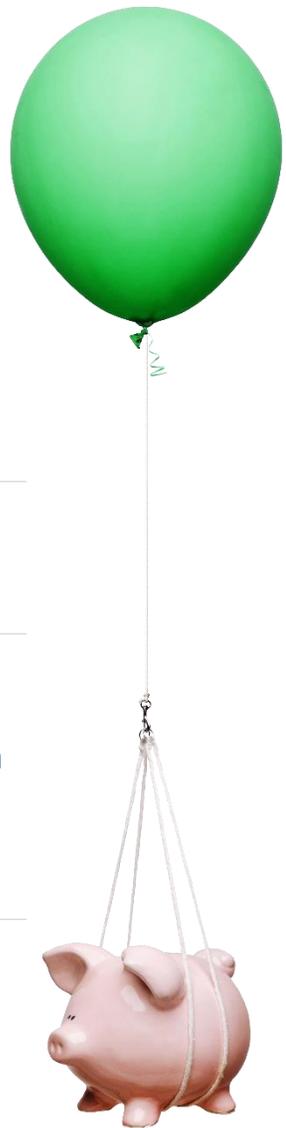
Page 180

Solvency

the report makes the comment that liabilities are growing much faster than size of employers backing them which therefore presents greater risk going forward, despite an improvement in funding levels more generally. However the ALM modelling that has been included in this section, which allows for the downturn due to the onset of the national lockdown at the start of the pandemic but not the rebound (due to lack of availability of data), presents a more downbeat picture than is expected to be the case currently although admittedly the ongoing outlook is very uncertain.

Long term cost efficiency

GAD reiterates the message of the need to consider the balance of cost between current and future generations of tax payers and that deficit recovery plans can be demonstrated to be a continuation of the existing plan with appropriate adjustment for experience since previous valuations. In addition there is additional commentary in their report regarding the use of contingent assets/asset transfers and the additional cost and risk associated with such arrangements with a recommendation for the Scheme Advisory Board to consider the governance of such arrangements further



Section 13 Report:

<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019>

Summary of Outcomes

2022 Valuation Implications

The report also notes a number of key areas for consideration for the 2022 valuations:

McCloud costs

Given that there is now greater certainty around the McCloud remedy, GAD notes it would expect a consistent and explicit calculation approach to be adopted at the next valuation. For the Fund, an explicit calculation approach was undertaken for the 2019 valuations, which for active members is consistent with the expected final remedy (subject to receipt of draft regulations, which are expected in 2022).

Covid 19 impact

In relation to Covid 19, the report simply comments that a dialogue between the actuarial firms and GAD to ensure consistency of approach, is encouraged.

Climate change

The report notes that DLUHC will be consulting on proposals for new requirements for assessing and reporting on climate risks in 2021 in line with the recommendations of the Taskforce on Climate-related Financial Risks (TCFD), and new regulations and guidance are expected to follow. It further notes that climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted. This is something that Mercer as Actuary will be considering for the Fund in conjunction with officers.



Summary of Outcomes

Other Considerations

Standardised Assumptions

Page 182

The remit of the Section 13 valuation is to test the premise of achieving solvency and long term cost efficiency to ensure that appropriate funding plans are put in place. In the Actuary's view this doesn't mean that assumptions used across Funds and advisors need to be standardised or wholly consistent and any further alignment of approach should be principles based as it is currently. This is particularly true of funded pension arrangements which have different risk appetites, breadth of employers, affordability constraints and also differential investment strategies. The Actuary welcomed the acknowledgement in the finalised report that variation of discount rate and demographic assumptions between Funds is to be expected. GAD also notes the need for more transparency in the discount rate used to set the primary contribution rate (the Mercer approach is, however fully transparent for the Fund so this comment does not apply) and the detail in the reporting of the local considerations that have been taken into account for assumption setting, so as to help to justify the variance in assumptions between Funds going forwards.

Academies

The report comments in some detail about consistency of funding treatment for academies, although as previously stated by the Actuary in response to the 2016 report, their view is that this does not fall within the remit of Section 13. In particular there is commentary regarding a lack of progress in achieving consistency in funding approach for conversion to academy status. In the absence of a mandated approach, Funds will continue to apply their own policies for academy conversion which in the Actuary's view are very sensible policies to adopt as they are fair to all parties.

Planning for 2022

The report relates to the 2019 valuations and so the messages around funding position and associated analysis are now somewhat dated, however it nonetheless provides context as Funds progress the planning for the 2022 valuations. In particular the messaging around climate change reporting will be welcomed and the Actuary will work with GAD and the other actuarial firms as to how this will be delivered in practice.



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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.12.1	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Head of the Clwyd Pension Fund who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

As mentioned at the November 2021 Committee, in the period October to December 2021 the Fund transitioned assets from the BlackRock (£82.4m) and Wellington (£147.4) Emerging Markets portfolios to the WPP Emerging Market Equity Sub Fund (£240.0m) The difference of £10.2m was funded from the Clwyd in house bank account to rebalance the Emerging Market Equity portfolio to its strategic 10% target allocation.

Cash Management

Background

The Deputy Head of the Clwyd Pension Fund forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored quarterly and revised on an annual basis. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 31st December 2021 was £73.9m (£63.5m at 30th September). The Fund received some significant private market distributions in December 2021 which resulted in another uplift in cash. The cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. Work is continuing with the Consultant and Actuary to monitor the cash-flow situation and be aware of any unforeseen issues. As part of the Investment Strategy Review, the new Cash Management and Risk Strategy can be utilised if this situation reverses. Monthly cash flows for the financial year to 2021/22 are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.12.2	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the 'Best Ideas' portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund. The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

Action Taken

Since the previous report to Committee in November 2021 the transactions agreed within the portfolio were:

- Sell £19.0m of LGIM Sterling Liquidity Fund
- Invest £19.0m in LGIM Commodity Index Fund

The current allocations within the portfolio following the transactions are:

- US Equities (1.8%)
- Commodities (2.8%)
- Infrastructure (2.0%)
- European Equities (0.6%)
- UK Equity (0.9%)
- EM Equity (0.5%)
- Liquidity Fund (2.4%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Head of the Clwyd Pension Fund and decisions made under this delegation are circulated to the Advisory Panel.

As at the end of November 2021, the Best Ideas portfolio 1 year performance was +13.8% against a target of +8.3% and the 3 year performance was +8.6% against a target of +5.4%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.12.3	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's current investment strategy includes a 27% asset allocation to private equity (8%), property (4%), infrastructure (including legacy timber and agriculture assets) (8%), private debt (3%) and impact / local investing (4%) These are higher risk investments, usually in limited partnerships, and as such, previously, these are smaller commitments in the range of £8m to £15m in each. Across these asset categories there are currently in excess of 65 investment managers, investing in 120+ limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and Consultant meet at least quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG), sustainability and impact aspects on the investments made.

A review has been being undertaken of the existing portfolio and future cash flows by the Consultants and the results determined the forward work plan. It is anticipated that when the Wales Pension Partnership (WPP) are able to accommodate commitments in these alternative areas, the Fund will commit any available monies through the WPP. The Fund Consultants and WPP will work closely to ensure the available sub funds are suitable for the Funds existing Private Market strategy. Until these asset classes are available through the WPP, the Fund will continue to work with Mercer recommendations to deploy capital and look for any opportunities which fulfil the current agreed strategy.

Action Taken

Due diligence has been completed by Mercer on several managers across several of the asset classes and recommendations made. Nine commitments have been agreed as detailed below and in 1.07 of the main report and there are another two in principle where final legal review and completion of subscription documents need to be finalised before the commitments can be made public.

Impact

- Circularity European Growth Fund II €12m (£10m)
- Generation IM Sustainable Solutions Fund IV \$14m (£10m)

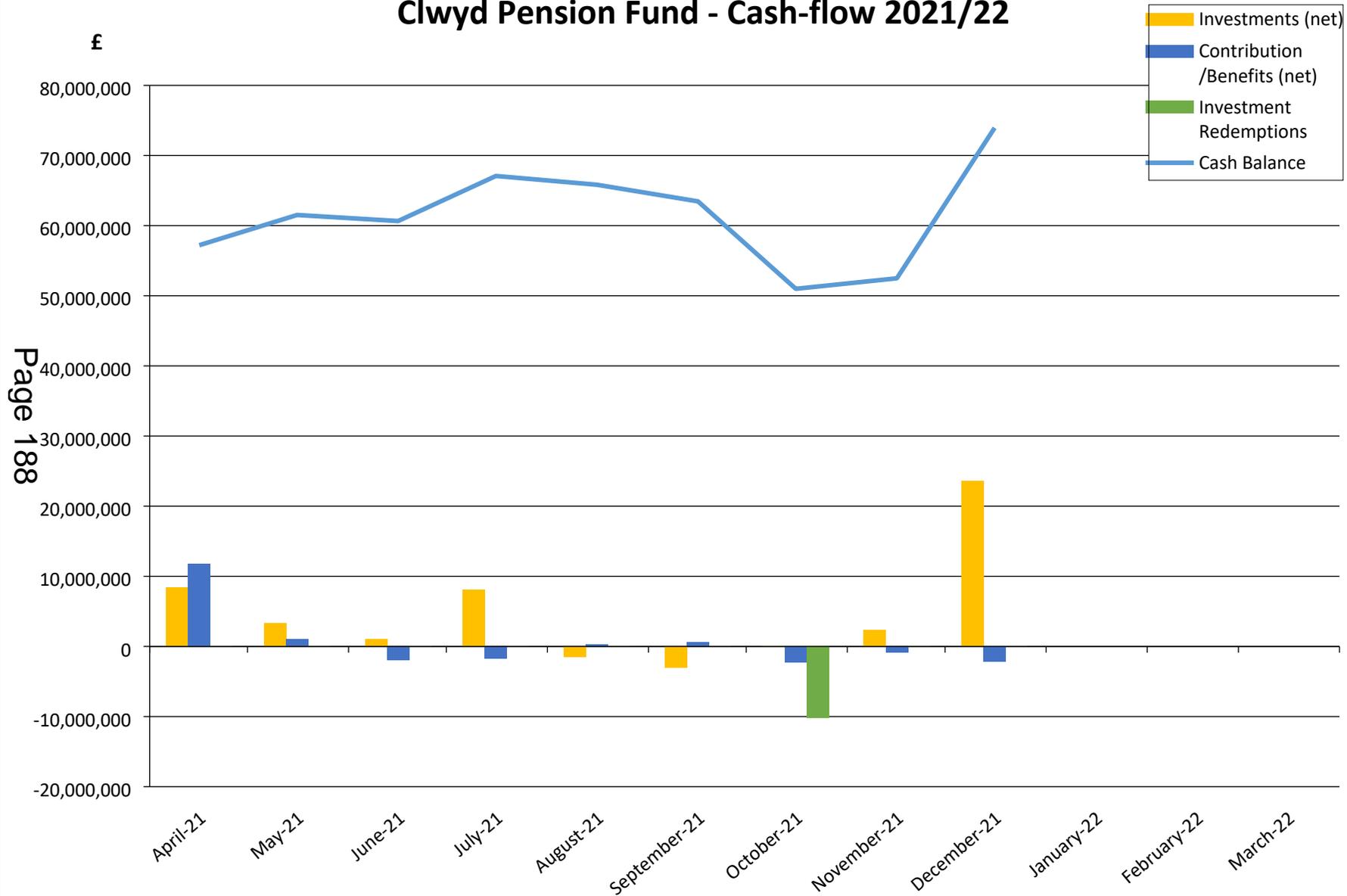
Private Equity

- Cap Vest Fund V €17m (£15m)
- Oakley Capital Fund V €16m (£14m)
- Astorg Fund VIII €17m (£15m)
- Permira Fund VIII €17m (£15m)

Infrastructure

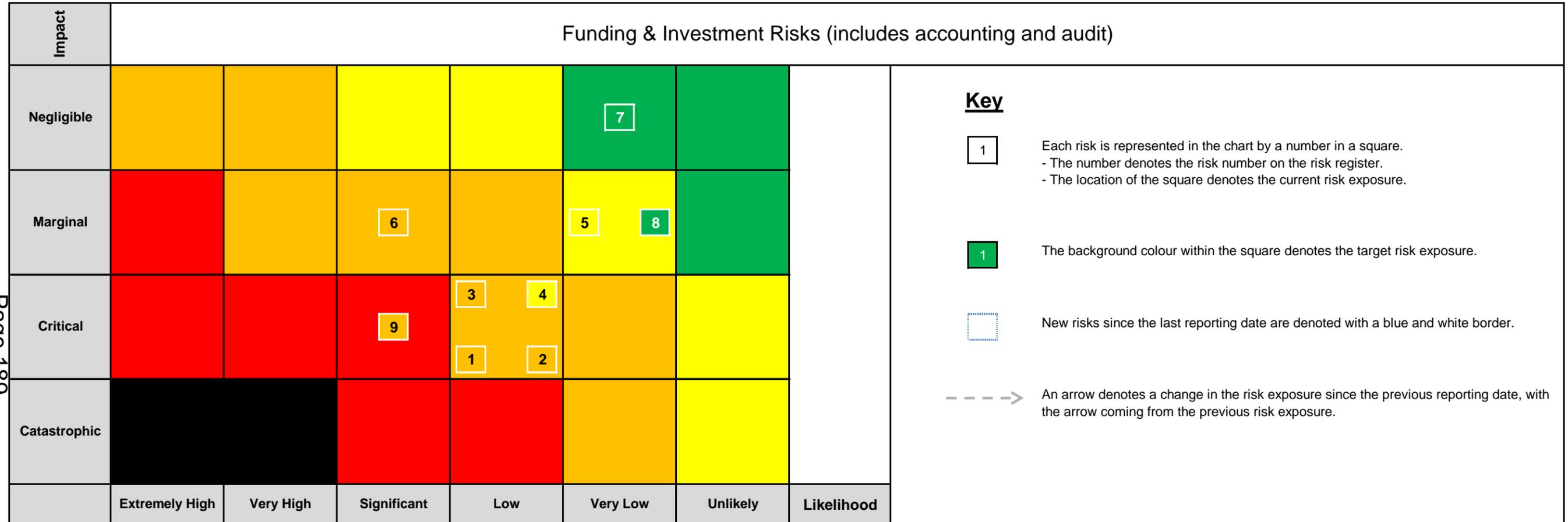
- Brookfield Global Transition Fund \$14m (£10m)
- Infravia Fund V €10m (£9m)
- Capital Dynamics SMA £50m

Clwyd Pension Fund - Cash-flow 2021/22



Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary

Page 189



26 January 2022

Clwyd Pension Fund - Control Risk Register
Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (06/2021) and Investment Strategy Statement (02/2020):

- F1 Achieve and maintain assets equal to 100% of liabilities within the 13 year average timeframe whilst remaining within reasonable risk parameters
- F2 Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- F6 Ensure net cash outgoings can be met as/when required
- F7 Minimise unrecoverable debt on employer termination.
- F8 Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- I1 Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
- I2 Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable longterm costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated	
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low	Orange	1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process and as part of the ongoing risk management framework.	Critical	Very Low	Orange	☹️ Current likelihood 1 too high	07/05/2020	Dec 2022	1. Discussions with Employers to assess affordability as part of Interim Valuation review (DF)	Head of CPF	31/03/2022	26/01/2022	
2	Funding level reduces, increasing deficit / reducing surplus	Movements in assets and/or liabilities (as described in 3,4,5) in combination, which leads to a reduction in funding level and increased contribution requirements in particular	F1 / F2 / F3 / F4 / F5 / F7	Critical	Low	Orange	See points within points 3,4 and 5	Marginal	Low	Orange	☹️ Current impact 1 too high	31/03/2016	Mar 2023	1 - Equity Protection Strategy to be reviewed regularly (DF) 2 - In conjunction with Risks 3, 4 and 5 - overall return outlook will be considered in light of COVID-19 (PL) - See points within points 3, 4 and 5	Head of CPF	31/03/2022	26/01/2022	
3	Investment targets are not achieved therefore materially reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented. - Black swan event e.g. global pandemic such as Covid-19 - Wales Pension Partnership (WPP) does not provide CPF with portfolios to deliver the Investment Strategy - Internal team do not have sufficient knowledge in order to challenge the investment managers on the advice given or understand the implications of all investment choices issues on the fund	F1 / F2 / F3 / F4 / F7	Critical	Low	Orange	1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring at Investment Day, FRMG and TAAG meetings 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available 7 - Consideration and understanding of potential Brexit implications. 8 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions. 9 - Assess impact of Covid-19 on markets and likelihood of achieving required outcomes as part of Interim Valuation review 10 - Officers work closely with the WPP to ensure that CPF has the ability to pool its assets in an efficient and effective manner	Critical	Low	Orange	☺️					Dep. Head of CPF	31/03/2022	26/01/2022
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low	Orange	1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee. 5 - Consideration and understanding of potential Brexit implications. 6 - Consideration and understanding of potential Covid-19 implications. 7 - The level of hedging is being monitored and reported.	Marginal	Very Low	Yellow	☹️ Current impact 1 too high ☹️ Current likelihood 1 too high	31/03/2016	Mar 2023	1 - Consider as part of Interim Valuation review (DF)	Dep. Head of CPF	31/03/2022	26/01/2022	
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low	Yellow	1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low	Yellow	☺️			1 - Longevity assumption being considered in light of Covid-19 and as part of Interim Valuation review (DF)	Dep. Head of CPF	31/03/2022	26/01/2022	
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Marginal	Significant	Orange	1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Participation in National consultations and lobbying 5. Costings performed in relation to the potential impact of McCloud on employers. Employers informed as part of the valuation regarding the potential contribution provision over 2020-23. Major employers agreed to include McCloud. 6. Fund policies updated to reflect latest flexibility Regulations on contribution rate reviews and deferred debt arrangements	Marginal	Low	Orange	☹️ Current likelihood 1 too high	31/03/2016	Mar 2022	1 - Once the Govt provide clarity on final remedy, request funding for McCloud from employers who did not make a provision (DF)	Dep. Head of CPF	31/03/2022	26/01/2022	
7	Insufficient cash or liquid assets to pay benefits	- Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. - Further risk presented with the introduction of exit credits for exiting employers in the 2018 Regulations update. - Covid-19 could also impact on cash-flow as employers may suffer cash-flow problems. - Private Markets distributions could dry up due to liquidity in markets.	F1 / F6	Negligible	Very Low	Green	1 - Cashflow monitoring (including private markets) to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding sufficient liquid assets as part of agreed cashflow management policy 4 - Monitor cashflow requirements to ensure that they have enough liquid assets to pay the benefits when needed 5 - Cash management policy is documented to help monitor and manage cashflow 6 - Assessment of risk of Covid-19 on employers to help understand the impact that it will have on their ability to pay contributions (i.e. their covenant) and address any cashflow issues 7 - Employers have been informed to notify Fund of any significant restructuring exercises. 8 - Employers have been informed to notify Fund of potential contract end dates (incl. changes) in sufficient time to reduce risk of large payments (i.e. through a contribution rate review in advance of the contract end date)	Negligible	Very Low	Green	☺️			1 - Continue with ongoing communications with employers to ensure they can continue to pay contributions in light of Covid-19 (DF)	Dep. Head of CPF	31/03/2022	26/01/2022	
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low	Yellow	1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely	Green	☹️ Current likelihood 1 too high	31/03/2016	Mar 2022	1 - Discussions with Employers to assess covenant risk after analysis of responses to covenant data request as and when received (DF)	Dep. Head of CPF	31/03/2022	26/01/2022	
9	The Fund's Long term Investment Strategy fails to deliver on its ambition and objectives as a Responsible Investor.	1. Responsible Investment (including Climate Change) is not properly considered within the Fund's long-term Investment Strategy meaning it is not sustainable and does not address all areas of being a Responsible Investor 2. WPP does not provide CPF with the tools to enable implementation of RI policies	F1, F4, F8, F9	Critical	Significant	Red	1. Fund has in place Responsible Investment (RI) Strategy 2. RI Policy has 5 Strategic RI Priorities 3. WPP has RI policy in place 4. Fund has adopted a 2050 Net Zero ambition for its Investment Strategy.	Critical	Low	Orange	☹️ Current likelihood 1 too high	03/02/2020	Mar 2023	1 - Implement Strategic RI Priorities, including analysing the Fund's carbon Footprint, Analyse impact of Climate Change at a Strategic level. Identify sustainable investment opportunities and improve disclosure and reporting (DF) 2. Work with WPP to ensure the Fund is able to implement effectively via the Pool (DF)	Dep. Head of CPF	31/03/2022	26/01/2022	

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