

**CLWYD PENSION FUND COMMITTEE**  
**12 June 2019**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 9.30am on Wednesday, 12 June 2019.

**PRESENT: Councillor Aaron Shotton (Chairman)**

Councillors: Haydn Bateman, Ralph Small, Billy Mullin (substitute member).

**CO-OPTED MEMBERS:** Councillor Nigel Williams (Wrexham County Borough Council), Councillor Huw Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), Mr Steve Hibbert (Scheme Member Representative).

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

**APOLOGIES:** Councillors Adele Davies-Cooke and Ray Hughes.

**IN ATTENDANCE:**

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), , Paul Middleman (Fund Actuary – Mercer).

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

The Chairman introduced himself to the Committee as this was his first Committee meeting. He thanked the former Committee members and the former Chairman, Councillor Dave Hughes, for all of the work that had been completed previously. The Committee, Board, officers and advisors introduced themselves to the Chairman.

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

No declarations of interest

56. **APPOINTMENT OF VICE CHAIR**

The Chairman stated that whoever is appointed Vice Chair, will also be appointed as the Deputy representative on the Joint Governance Committee for the Wales Pension Partnership. The Chairman asked for nominations for this role.

**RESOLVED:**

- (a) Following nominations, Cllr Bateman was appointed as the Vice Chair.

57. **MINUTES**

The minutes of the meeting of the Committee held on 20 February 2019 were submitted. Cllr Bateman thanked Nikki Gemmell for the quality of the previous minutes.

**RESOLVED:**

- (a) It was agreed the minutes could be received, approved and signed by the Chairman.

58. **2018/19 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT**

The Chairman passed this item of the agenda to Mr Vaughan who clarified that this item is based on the draft Fund accounts and the final audited Fund accounts will be presented at the next Committee meeting in September.

Page 23 and 24 contain the income and expenditure of the Fund. In 2018/19 there were contributions of c£74m which is significantly less than the previous year of c£105m because three employers chose to pay all of their deficit contributions in 2017/18.

Overall in the Fund accounts, there was an increase of c£81m in the assets over the year.

Cllr Bateman asked for more detail on note 10 in relation to the management expenses. Mr Vaughan said that page 34 outlines the oversight and governance costs which include work in preparation for the Actuarial Valuation in 2019. There has been an increase in consultant fees over the year in relation to the Flightpath and Project Apple. The administration costs are due to the additional resources as well as the outsourcing activities. Mr Vaughan also mentioned that the Fund management fees in note 10a were higher in 2017/18.

Mrs McWilliam highlighted that she had some minor suggested amendments to be made relating to the Annual Governance Statement which she would feedback directly to the officers.

Mr Ferguson confirmed that these accounts will be taken to the Council's Audit Committee meeting on 10<sup>th</sup> July.

Mrs Phoenix from the Welsh Audit Office talked through some of the key points from the 2019 Audit Plan on page 67 highlighting the audit fee on page 73.

In terms of Annual Governance Statement (AGS), Cllr Jones noted that there is an identifiable risk involved with having new Committee members. Mrs McWilliam confirmed that this was already incorporated within the Fund's risk register and this risk would be mitigated through training.

**RESOLVED:**

- (a) The Committee members considered the draft accounts and Annual Governance Statement and noted the WAO Audit Plan.

## 59. **RESPONSIBLE INVESTMENTS**

Mr Buckland highlighted that Responsible Investing has moved into the mainstream and investors are now heavily considering the Environmental, Social and Governance (ESG) risks associated with investments. He confirmed that the Fund is in a very good position in terms of responsible investing, compared to Funds who haven't considered this in the past. He noted that 'The ABC of ESG' from Mercer on page 83 is a handy reference guide in this area of investments for the Committee and officers. Equally the Mercer report "Investing in a Time of Climate Change" was a very helpful report to consider in terms of setting an investment strategy.

The Fund policies (in particular the Investment Strategy Statement) will be reviewed this year alongside the Actuarial Valuation, as well as the overall investment strategy.

Mr Buckland emphasised the importance of the views of the Committee members, therefore over the next few weeks the Committee members will be provided with a survey in order to gather their views on a number of key areas. These views will be incorporated into the policy when it is being reviewed with the officers in the summer. The results of the survey will be brought back to the Committee in September. An updated policy will then be presented to the Committee in November for approval and this will form part of the Investment Strategy Statement.

As previously mentioned there are three strands of ESG. The 'E' is focused on the environment, which is easier to measure objectively in terms of impact, for example, carbon footprint. The 'S' relates to the social impact which are more difficult to measure objectively. These factors include workforce relationships, employer practices and addressing social impact. Lastly, the 'G' relates to governance including corporate governance, audits and internal controls.

Mr Buckland explained that, as a long term investor, it is crucial to ensure that investments are sustainable. For example, at any point in time there is potential to be up to 100 years of liabilities which have accrued and which brings these factors into focus as some of the environmental factors will be very relevant in that time period. Therefore, investments need to be responsible and sustainable for the long term and meeting the fundamental objective to pay benefits when due to members.

Mr Buckland described one example approach to Responsible Investment called screening. This is where investors specifically choose not to invest in one area of the economy e.g. tobacco or fossil fuels. Fossil fuels can be a very emotive topic with climate change, but the pros/cons need to be considered in a balanced way when deciding on policy.

Following recent climate change news, Cllr Jones brought up the fact that Theresa May suggested for the UK to go carbon neutral by 2050. He wondered where that leaves the WPP asset pool in terms of investments and also if the decisions from Welsh Government differed from those of the UK Government. Mr Hibbert added that the Fund are constrained as they have to invest in line with British Government policy. Mr Everett noted these were all valid points. However, the decisions on the policy will have to be made in the best interest of the Fund. Mrs McWilliam said that the key point always comes back to the fiduciary responsibility of the Fund i.e. to pay benefits when due which relies on sustainable long term

returns. In relation to climate change, she also emphasised how valuable the variety of opportunities in the market are.

**RESOLVED:**

- (a) The Committee noted and commented on the presentation, and agreed the process for the review of the Fund's policy.

60. **POOLING INVESTMENTS IN WALES**

Mr Latham reminded the Committee that the Fund have transitioned 4% of the total Fund assets from global equities to the pool, which equates to over c£75m. As a result, the Fund will make a saving of £152k per year from Fund Manager fees on this mandate, which was the intention of pooling all along. The movement of assets resulted in transition costs of c£364k, however these costs will be paid back within 2 years and 5 months due to the annual savings.

Mr Latham said that there have been discussions about investing in private markets but it is only early days and he will provide further updates in due course.

Following the previous agenda item on responsible investment, WPP now has a draft policy which is going to all Welsh fund committees for consideration. The purpose of the policy is to set out the pool's overarching enabling policy but is not intended to restrict any individual Fund. This policy will be shared with the Committee alongside the responsible investment survey from Mr Buckland.

Regarding the governance of the WPP it was noted that the work plan is now in place. The OWG and JGC members are due to attend a governance session which will include a number of areas on the work plan. .

Mrs McWilliam said that she met with the host authority, Link Fund Solutions and other Board Chairs, in early April. At that session, the host authority highlighted that a lot of the past focus had been on the investment side of pooling as opposed to the governance side, mainly due to restricted resources. However, Mrs McWilliam came away from the meeting feeling very positive. She added that it was useful that the host authority admitted that they need to focus more now on the governance side of pooling and feel they have caught up substantially and continue to make good progress. It was agreed at the meeting that the event would be repeated twice a year.

Mr Hibbert thanked the officers for raising the overall issue of governance at the JGC. He also asked whether the Fund are any closer to having an answer to his previous questions on the governance arrangements i.e. making a clear statement as to why scheme members are not represented on the JGC, in accordance with comply or explain principles. Mr Latham confirmed that he is not aware of any written answer to this yet, but he can raise it again. Mr Hibbert expressed his concerns as this request was asked over 12 months ago, which meant that there must have been at least four meetings. Therefore, he wants this to remain an outstanding issue until it is resolved.

**RESOLVED:**

- (a) The Committee noted the report and discussed progress being made by the Wales Pension Partnership.

61. **GOVERNANCE UPDATE**

Due to the length of the agenda, it was confirmed that the report in this item was noted and taken as being read. The key element around the SAB good governance project survey was however highlighted as the impact of this could be significant. Mrs Fielder will follow up regarding training for the new members.

**RESOLVED:**

- (a) That the Committee considered the update and provided any comments.

62. **COMMUNICATION AND ADMINISTRATION STRATEGIES**

Mrs Williams presented the draft strategies and stated that the Fund has 43 employers with active members and c47,000 scheme members. The aim of the strategies is to ensure that all parties are aware of their responsibilities, and there is clarity on what is to be achieved including such as having KPI's in place. The administration strategy sets out a more formal approach for when employers do not carry out their responsibilities, so it is clear for the administration team what the process of escalation is.

On page 275, Mrs Williams highlighted the two key changes, the first being the number of days that the team have to respond to starter forms. This has changed from 15 working days to 30 working days from the receipt of all information. This is due to the transition to iConnect, as the data is now received in much larger quantities on a monthly basis. The second change is the completion of the employer compliance declaration. This is outlined on page 290 and will now be embedded in the administration strategy.

Mrs Williams explained that the proposed changes to the communication strategy are highlighted throughout the document. It was confirmed that members do not need to communicate via MSS, as they can opt to continue with paper communications.

Mrs Williams highlighted that there is an online training module which is a useful tool where CPF staff members can learn about the LGPS and current regulation updates. Feedback is received from the tool and staff need to gain full understanding of each element before they can move onto the next level.

Mr Pumford noted that there may be members who do not own a computer and queried if it is possible the Fund may lose contact with those members. Mrs Williams confirmed that the Fund wrote out to all members and noted they still have the option to call the Fund. There are still lots of calls coming through and it is a great way to communicate to the members. It was also confirmed that paper form is still acceptable but still the proposed strategy is to move to more digital communication where possible.

Mr Hibbert highlighted a small grammar error in the administration strategy which Mrs Williams confirmed she would change.

**RESOLVED:**

- (a) The Committee considered and approved the proposed amendments to the Administration and Communication Strategies, subject to consultation with stakeholders.

- (b) The Committee delegated any final minor changes, following consultation, to be made by the Clwyd Pension Fund Manager and Pensions Administration Manager, with any more substantive changes being brought back to Committee for consideration.

63. **LGPS UPDATE**

The report was noted and the Chairman went straight to questions.

Mr Hibbert questioned the two reports which covered the £95k exit cap. He asked what it will mean for Welsh Government. Mr Middleman confirmed that the intention is that the Welsh Government would implement the Regulations. Mr Middleman explained he will go through where it is implemented in detail in the later report covering the draft consultation response.

**RESOLVED:**

- (a) All Committee members noted this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

64. **ADMINISTRATION AND COMMUNICATIONS UPDATE**

Mrs Williams presented this report and started by highlighting it is a busy time of year for the Fund because of the actuarial valuation. On page 351, she highlighted the change in timescales in item A3 for under and overpayments to the members. The delays in this are primarily due to the GMP reconciliation exercise as this affects the calculations.

Mrs Williams explained she has been involved in the LGPS National Framework for the provision of administration software providers, as well as being involved in the administration benchmarking review with CIPFA. For the benchmarking review, the Fund have taken on board how KPI's are implemented. Mr Everett added that whilst the KPI requirements are important, he emphasised that there has to be some professional judgement on decisions made when utilising resources.

Mrs McWilliam noted the following points;

- The communications team is already working on the points highlighted by the customer satisfaction survey.
- Despite pressures including the valuation and data cleansing, the team have still managed to complete day to day responsibilities.
- The new staff are still undergoing training.

Overall, given the pressures it has been a good performance from the team.

The Chairman and Mr Everett congratulated Mrs Williams on her new role as Pensions Administration Manager.

Cllr Williams queried whether there have been any updates on iConnect for Wrexham CBC. Mrs Williams stated that the team have been heavily involved in the year-end exercise and member benefit statements, therefore the focus on iConnect for Wrexham CBC will be around September.

Cllr Bateman questioned whether there was any update on Project Apple. Mrs Williams said that there is a separate item for this but she confirmed that Project Apple is completed.

Mr Middleman covered the recent HM Treasury consultation response and reminded the Committee what the £95k exit cap is and the importance of it from a policy perspective. The £95k exit cap is the maximum severance payment for members (including direct cash payment and the cost of accessing pension benefits early) who leave public sector employment. LGPS members are entitled to take their unreduced benefits immediately at age 55 on the grounds of redundancy.

Mr Middleman referred back to Mr Hibbert's question from an earlier item on who the Regulations apply to. He ran through some of the exemptions from page 368 highlighting the middle of the page where it outlines who is covered by the Regulations i.e. local authorities, Civil Service and the NHS etc. In summary the Regulations will apply in both Wales and England but it currently won't apply in Scotland. It also would not apply to Higher and Further Education employers so in that sense there would be different treatment within the LGPS by employer which complicates matters also. However, he then referred to the discretionary power to relax the cap and highlighted the bottom of 373 which shows some of the restrictions and explained this would provide some flexibility as to if the requirements were applied within Wales.

The draft response is on behalf of the Fund and outlined from page 381. The Committee approved the proposed response to the £95k exit cap consultation as attached in Appendix 7. Mr Middleman explained that, as it was a response from the Fund, it focused on the operational and implementation issues as opposed to the policy aspects, which is a matter for Welsh Government and employers affected. There was an expectation at the current time the cap will be in place for 1 April 2020. Mr Middleman noted that Fund and employer policies/processes will need to be updated to cover this matter as it critical that they align to operate the policy correctly.

Mr Middleman noted the operational technicalities that need to be implemented before the cap can be operated. For example, a set of common national factors will be needed and this will be the remit of the Government Actuary's Department. It was also noted that this cap will not just affect high earners in the LGPS as a member with 40 years' service and a salary of c£25k per annum could be affected depending on when they retire.

Mr Everett noted the redundancy exit payment and Mr Hibbert emphasised the importance that members are aware of the changes to proposals. Mr Hibbert raised his concerns with the policy and who it will affect. Mr Everett noted that any concerns on the policy should be raised by all members via the appropriate channels.

#### **RESOLVED:**

- (a) The Committee considered the update and provided any comments.
- (b) The Committee approved the change in timescales to the business plan as outlined in paragraph 1.01.
- (c) The Committee approved the proposed response to the £95k exit cap consultation as attached in Appendix 7.

#### **65. EMPLOYER CARE PAY ISSUE**

Mr Latham presented this report and noted that the Pension Regulator closed the employer CARE pay case. Mr Hibbert requested for this letter to be shared with the Committee.

Cllr Bateman queried what the final settlement was in relation to the CARE pay issue. He was referred to page 421 which provides a summary of the final figures across all categories of membership.

**RESOLVED:**

- (a) The Committee noted this report.

66. **INVESTMENT AND FUNDING UPDATE**

This item of the agenda was noted and no questions were asked by the Committee members.

**RESOLVED:**

- (a) The Committee considered and noted the update for delegated responsibilities and provided any comments.

67. **ECONOMIC AND MARKET UPDATE**

This update was noted and the Committee went straight to questions. Cllr Mullin enquired whether there was any update on Brexit. Mr Buckland said that there are still uncertainties but the biggest issue at the moment is the conservative leadership election. The result of the election is due to come out mid-July and depending on the outcome he believes that there is a possibility of a No Deal Brexit. If that was the case, he noted that there could be an impact on Sterling. Given the position of the portfolio, the impact will not necessarily be a major impact as it is protected as far as possible (due to the hedging position). Globally there is a concern on US and China trade tensions which will likely have an impact and is causing some volatility in markets. Mr Buckland confirmed that the outlook is something that will be taken into account in the strategy review later in the year.

**RESOLVED:**

- (a) The Economic and Market Update 31 March 2019 was noted and discussed.
- (b) To note how the information in the report effectively “sets the scene” for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund’s asset portfolio.

68. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

The Committee went straight to questions on this item of the agenda and Cllr Bateman highlighted the increase of £82.1m in total market value on page 459 which was positive.

**RESOLVED:**

- (a) The investment strategy and manager performance in the Investment Strategy and Manager Summary 31 March 2019 was noted and discussed.
- (b) The Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.



69. **FUNDING AND FLIGHTPATH UPDATE**

This item of the agenda also went straight to questions and Mr Hibbert referred to Mercer's document on equity protection, specifically collateral risk monitoring. He thought that a lot of the information was new, with reference to topics that he was not aware of. Mr Middleman confirmed that this is the more detailed quarterly report which has a lot more monitoring information in it than the usual monthly report. The information includes some areas that have been highlighted for future Committee training e.g. the detail on the collateral waterfall as it will take some time to get the committee fully up to speed with this. Mr Middleman confirmed this will be picked up in a future training session.

**RESOLVED:**

- (a) The Committee noted the updated funding position (on assumptions consistent with the 2016 valuation) and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
- (b) The Committee noted that Insight have implemented the collateral waterfall process previously agreed with the Officers and their advisors. It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed in due course.
- (c) The Committee noted that any currency risk associated with the market value of the synthetic equity portfolio with the Flightpath strategy has now been hedged.

70. **2019 ACTUARIAL VALUATION**

Mr Middleman explained the background of the Actuarial Valuation i.e. emphasising the importance of the valuation in respect of the employer budgets and setting the strategy going forward in terms of the investment strategy and risk appetites. The key driver is the expected return above CPI inflation as well as the certainty of that return. This is the core objective of the Flightpath strategy which targets a more stable return in the long term to provide as much stability in contributions as possible whilst targeting the removal of the deficit over a reasonable period of time.

He noted the following points in terms of the process;

- The challenge that will be faced in relation to the McCloud judgement as this is expected to increase costs but we don't know by how much at this point.
- Mercer expect a data set by mid-July.
- Initial demographic analysis reflects a slowdown of life expectancy (which reduces the liabilities by around 3-4%) but there has been an upwards incidence of ill-health retirement.
- Going forward the expected investment returns above CPI inflation are expected to be lower than previously.
- Allowing for the lower returns and estimated change in life expectancy the estimated funding level had improved at 31 March 2019 to be c91%. As a result, there was an expectation of a substantial reduction on the deficit.
- In terms of the future service contribution rate this was expected to increase due mainly to the lower expected future investment returns.

Mr Middleman confirmed that more detail would be discussed at the September committee where there will be a draft Funding Strategy Statement for approval.

Mr Everett mentioned that officers have had detailed discussions around the valuation and the early dialogue is helpful.

Mr Middleman moved on to page 531 which presents a draft consultation Fund response for the proposed change to a 4-year valuation cycle from 2024 and management of employer risk. He covered the draft response and asked for questions from the Committee.

The main discussion points were as follows:

- The change to a 4-year cycle was to bring it into line with the unfunded public sector schemes and the cost management process. In isolation Mr Middleman didn't agree with the amendment to a 4-year valuation cycle as it weakened the governance of the LGPS and for some employers it was certainly too long. However, as interim valuations are going to be allowed where circumstances warrant it, then it was reasonable. However, his view was that this should be phased in so was supportive of the option of a valuation in 2022 and then another in 2024.
- The changes proposed in relation to Exit Credits (to clarify the previous regulations) and the implementation of Deferred Employer status options were sensible additions to the Regulations.
- Guidance from the Scheme Advisory Board should be welcomed as long as it was principles based and not prescriptive to allow funds to apply it sensibly to their own circumstances.

**RESOLVED:**

- (a) All Committee members noted this report, the progress being made with the actuarial valuation project and the planned meetings with employers.
- (b) The Committee members considered the draft response to the consultation and provided comments and required amendments. The Committee then delegated the finalisation of the response to officers.

71. **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 item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

72. **MULTI-ASSET CREDIT TRANSITION**

Mr Campbell explained that the Fund currently has a strategic allocation of 12% to Multi-Asset Credit (MAC) which has been managed by Stone Harbor Investment Partners and represents a current value of c£200m. A MAC fund is now being offered by the Welsh Pool as part of their Fixed Income Sub-Funds. After appropriate due-diligence it was agreed that the Fund holding would be transitioned to the pool sub-fund and the Committee was asked to approve this and delegate the timing of that to officers.

Mr Campbell went through a slide deck for training and information purposes for the Committee before making that decision.

**RESOLVED:**

- (a) The Committee ratified the decision to invest in the Wales Pension Partnership Multi Asset Credit Fund which will be funded from the current mandate with Stone Harbor Investment Partners.
- (b) That, in accordance with the reserved matter requirements of the IAA regarding the timing of the transition, the Committee agreed that these assets should be transitioned in the coming months having regard to the advice of a specialist transition manager.
- (c) The Committee delegated the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) after considering advice from that specialist transition manager.

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that the next Committee meeting is on 4<sup>th</sup> September. The meeting finished at 1pm.

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**Chairman**