

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 7 October 2020
<b>Report Subject</b>	Pooling Investments in Wales
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the work undertaken on behalf of the Wales Pension Partnership (WPP) with pooling investments in Wales. There are no decisions required by the Clwyd Fund Committee, however comments on progress from this Committee can be raised with the WPP by our Chair or officers as appropriate. This update report follows a series of previous reports on the progress of the WPP, the last being February 2020.

The WPP Officer Working Group (OWG) has continued to work on a remote basis during the pandemic with the Joint Governance Committees (JGC) meeting on three occasions; 12 March 2020, 17 July 2020 and 11 September 2020. During this period all eight constituent authorities have agreed the WPP 2020/21 to 2022/23 Business Plan and good progress has been made with the 2020/21 Work Plan although some pooling of assets has, and will, take longer than originally planned. The Work Plan for 2020/21 includes the following areas:

- Governance
- Ongoing Establishment of pooling assets
- Monitoring Operator Services
- Training, communication and reporting
- Monitoring resources, budget and fees.

The Head of Clwyd Pension Fund and Deputy 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. The next JGC is planned for 10<sup>th</sup> December 2020.

### RECOMMENDATIONS

1	That the Committee note the report and discuss and agree any comments or questions for WPP.
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## REPORT DETAILS

<b>1.00</b>	<b>Pooling Investment in Wales</b>
1.01	<p><b>Governance</b></p> <p>As agreed in the Inter-Authority Agreement (IAA) the role of Chair and Vice Chair is rotated annually and at the 17 July 2020 Joint Governance Committee (JGC) Councillor Glyn Caron was appointed Chair of the JGC (Torfaen) and Councillor Clive Lloyd (Swansea) was appointed Vice Chair.</p> <p>There have been JGC meetings on 12 March, 17 July and 11 September since the last Clwyd Pension Fund Committee on 20 February 2020. The minutes of the most recent meeting in September are attached as Appendix 1. During these committees a number of new documents and policies including the following have been approved, and where necessary under the IAA reserved matters, also approved by Constituent Authorities:</p> <ul style="list-style-type: none"><li>• Business Plan 2020-2023</li><li>• Conflicts of Interest Policy</li><li>• Training Plan for 2020/21</li><li>• Risk Policy &amp; Risk Register</li><li>• Climate Risk Policy (as part of Responsible Investment Policy).</li></ul> <p>Given the ongoing work at Clwyd Pension Fund in relation to Responsible Investments, the WPP Responsible Investment and Climate Risk Policies are attached for information. The other policies and business plan can be found on the WPP website - <a href="https://www.walespensionpartnership.org/publications/">https://www.walespensionpartnership.org/publications/</a>. The public report packs for these JGCs can be found here – <a href="http://democracy.carmarthenshire.gov.wales/ieListMeetings.aspx?Committeeld=234">http://democracy.carmarthenshire.gov.wales/ieListMeetings.aspx?Committeeld=234</a>.</p> <p>To enhance governance of the WPP the Host Authority meets with Chairs of the constituent authority Local Pension Boards. The last meeting was held on 15<sup>th</sup> September (to replace the meeting that was postponed during lockdown). It was attended by Karen McWilliam as Chair of the Clwyd Pension Board. Karen has fed back that it was a productive meeting that was represented by all Welsh Local Pension Boards. The meeting included updates from the Host Authority, Link and Russell.</p> <p>The consideration of scheme member representation at JGC is planned as an agenda item for the next JGC on 10 December 2020.</p>
1.02	<p>As part of the implementation of the WPP Responsible Investment Policy and following a competitive tender, in which the Deputy Head of the Clwyd Fund participated in the evaluation, Robeco have been appointed as Voting and Engagement Advisor for the WPP. This is a key new appointment to the WPP.</p> <p>Given the importance and complexities of Responsible Investment and Climate Risk a new RI sub group has been agreed which will report to the OWG on how to implement, report and measure progress with these policies. The group will include the Deputy Head of Clwyd Pension Fund along with other</p>

	practitioners who will be advised by Hymans Robertson as WPP Oversight Advisor and Robeco.
1.03	<p><b>Ongoing Establishment of Pooling Assets</b></p> <p>Following approval in June 2019 from this Committee, £200m 10% of the Fund's assets were transferred from Stone Harbor multi asset credit funds to the WPP Multi Asset Credit fund over a period of 3 dates in August and September. In addition, as part of the rebalancing of assets as a result of the recent agreed Investment Strategy review, an additional £9.3m was invested with the Russell Global Opportunities Fund. This now means that 15 % of the Fund's assets are now managed through WPP.</p> <p>The Fund also holds assets with BlackRock, the WPP passive equity manager. These amount to another 9% (5% in the Global ESG Fund and 4% in Emerging Market Equities)</p> <p>Work continues on the implementation of the WPP Emerging Market equity sub fund with a revised planned implementation date of May 2021. A recommendation will be made at a future Clwyd Pension Fund Committee on the potential transfer of 10% of the Fund's assets to this new fund.</p> <p>Work also continues on various options for the pooling of private market assets across infrastructure, private equity, private debt and property. As outlined in the WPP Business Plan this will be implemented over the next three years and recommendations will be made to this Committee when appropriate.</p>
1.04	<p><b>Monitoring Operator Services</b></p> <p>The Operator, alongside the third parties that it appoints on behalf of the WPP, are critical to the ongoing activities of the WPP. In terms of assets under management, the OWG and JGC receive updates from both Link and Russell. There is an engagement protocol between the Host Authority and the Operator although the Work Plan for 2020/21 includes enhancing this framework.</p>
1.05	<p><b>Training, Communication and Reporting</b></p> <p>The WPP Training Plan for 2020/21 is being implemented and constituent authority Committee and Local Pension Board members are invited to most sessions.</p> <p>Sessions currently offered to the constituent authorities include:</p> <ul style="list-style-type: none"> <li>• Engagement and Voting provided by Robeco</li> <li>• Climate Risk Performance Metrics and Asset Classes</li> <li>• Pooling Progress and Collaboration Opportunities</li> </ul> <p>Details and dates have been circulated to Committee and Board members and included on the Fund training plan.</p> <p>The WPP is finalising its first Annual Report &amp; Accounts which will be included on their website. The Accounting Statements and Annual Governance Statement sections of the Annual Return were prepared by the Host Authority and Carmarthenshire County Council's Internal Audit Department had carried out an Internal Audit Review. The Annual Return has been audited by Audit</p>

	<p>Wales and was approved at the JGC meeting in July.</p> <p>A questionnaire is being prepared for constituent authorities on their views on the WPP and what they would like to see from WPP in the future.</p>
1.06	<p><b>Monitoring Resources, Budget &amp; Fees</b></p> <p>The current contract for the WPP Legal Advisor, which ended on 30 June 2020, was extended. However the procurement process using the LGPS Framework is now in progress and a recommendation will be made to the next JGC.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p>The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2020/21 budget. The estimated Operator costs are also included within that budget.</p>
2.02	<p>There has been considerable time allocated by the Head and Deputy Head of Clwyd Pension Fund on WPP matters which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.</p>

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. 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 MHCLG in 2020 and the implications of that guidance are not yet known.</p> <p>Given these points, this risk continues to be categorised as significant in the Fund's risk register.</p>
4.02	<p>WPP has now developed its own risk register. The three risks that are currently flagged as concerns are:</p> <ul style="list-style-type: none"> <li>• <b>The WPP's suppliers fail to deliver on their contractual commitments.</b> <ul style="list-style-type: none"> <li>○ This could mean work in progress is uncompleted or delayed, stakeholders' requirements are not met and/or inappropriate decisions are made that lead to financial loss, inefficiencies or reputational risk.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ The action that is being taken is to formulate a shortlist of "potential replacement suppliers" that could be appointed if required, which would accelerate the timeframe for the appointment of a replacement supplier if required.</li> <li>● <b>The WPP's Operator fails to deliver on its contractual obligations or stops providing operator services due to existing market or regulatory restrictions.</b> <ul style="list-style-type: none"> <li>○ This could mean the WPP assets held by the Operator are put at risk, some of the WPP contracts are broken or the WPP is unable to work efficiently, required work is not completed or sub-funds are unable to be managed or launched.</li> <li>○ The action that is being taken is the OWG will develop an 'impact limitation procedure' which could be enacted if the Operator were to exit the market or if an immediate replacement needed to be appointed. The OWG is also continuing to monitor any developments resulting from the FCA's review of the ACD Operator market.</li> </ul> </li> <li>● <b>Key personnel risk at the Host Authority.</b> <ul style="list-style-type: none"> <li>○ This could mean the Host Authority is unable to provide support to the WPP, no or ineffective action is taken leading to financial loss or efficiencies, or key knowledge and existing relationships are lost.</li> <li>○ The OWG will consider what action will be taken if key personnel at the Host Authority leave and consider what additional control could be put in place to reduce the risk probability and the potential impact on business continuity.</li> </ul> </li> </ul>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – WPP JGC Minutes 11 <sup>th</sup> September 2020 Appendix 2 – WPP Responsible Investment Policy Appendix 3 – WPP Climate Risk Policy.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<ul style="list-style-type: none"> <li>● Earlier Committee reports on the progress of the WPP.</li> <li>● The Wales Pension Partnership Inter-Authority Agreement.</li> </ul> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund <b>Telephone:</b> 01352 702264 <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	(a) <b>The Fund – Clwyd Pension Fund</b> – 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) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (e) **Inter-Authority Agreement (IAA)** – the governance agreement between the eight Wales pension funds for purposes of pooling
- (f) **Wales Pension Partnership (WPP)** – the name agreed by the eight Wales pension funds for the Wales Pool of investments
- (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