

CLWYD PENSION FUND COMMITTEE

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| Date of Meeting | Wednesday, 10 February 2021 |
| 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. The only matters for approval relates to:

- an amendment to the Investment Strategy Statement to incorporate a revised cash flow management procedure.
- becoming an affiliate member of Pensions for Purpose.
- adopting the Impact Institute objectives.

This report also provides updates on the following items:

- The Business Plan 2020/21 – this is mainly on track.
- Risk register - there have been no changes to the scoring of the current risks
- Update on work undertaken with responsible investments.
- Delegated responsibilities – this details the delegated responsibilities which have been completed by officers since the last Committee meeting.

RECOMMENDATIONS

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| 1 | That the Committee consider and note the update for delegated responsibilities and provide any comments. |
| 2 | That the Committee approve the updated cash management wording for inclusion in the Investment Strategy Statement as outlined in paragraph 1.01. |
| 3 | That the Committee approve becoming an affiliate member of Pensions for Purpose as outlined in paragraph 1.05 and adopt the Impact Institute objectives as outlined in paragraph 1.06. |

REPORT DETAILS

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| 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 2020/21 and the key points are summarised below:</p> <ul style="list-style-type: none">• The cashflow management and liquidity process (F1) has now been documented to be included in the Investment Strategy Statement. (Appendix 4). Members are asked to approve the updated wording for the cash management and liquidity process for inclusion in the Investment Strategy Statement.• Work on the implementation of our Responsible Investment Policy (F3) continues and an update is provided in 1.09.• Within asset pooling (F4), work is still underway on an appropriate structure for Private Markets which will extend into 2021/22. The transition of Emerging Market equity is currently scheduled for September 2021. |
| 1.02 | <p>Current Development and News</p> <p><i>SAB Responsible Investment Advisory Group</i></p> <p>The Scheme Advisory Board (SAB) are creating a Responsible Investment Advisory Group consisting of a selection of Fund Managers, Consultants and representatives from Pools and key Administering Authority groups. SAB asked for nominations from the various groups of which Wales was separately identified. The final membership of the group has now been confirmed and includes the Deputy Head of the Clwyd Pension Fund who was nominated for Wales by the Wales Pension Partnership.</p> |
| 1.03 | <p><i>Review of Employer Contributions and Flexibility on Exit Payments</i></p> <p>An update on the review of employer contributions and exit payment flexibility was provided at the October 2020 Committee. Statutory guidance and guidance from SAB is expected to be published in February after which the draft Fund policies will be brought to the Committee in March ahead of the consultation with employers.</p> |
| 1.04 | <p><i>Local and Impact Investments</i></p> <p>The interest in “local” investments is becoming wider across the LGPS, albeit the interpretation of the definitions of Local and Impact investments can be inconsistent. The Fund has been an investor in both these areas for many years now and as such has been approached by several external organisations for discussions.</p> |

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| | <p>The Deputy Head of the Fund has had several meetings in the last few months with members of the Welsh Government Energy Service who may be looking for additional funding for energy projects across Wales. This is early days and the Fund will need to ensure robust due diligence before proceeding with any such requests but is keeping the dialogue open and introduced the Energy Service to external Fund Managers that we invest in to offer any advice or assistance.</p> <p>In a similar vein, Fund officers and Flintshire County Council officers along with officers from Gwynedd County Council and Pension Fund have also had an initial meeting with the Economic Advisory Board who may also be looking at funding for specific growth projects in North Wales.</p> |
| 1.05 | <p><i>Pensions For Purpose</i></p> <p>Pensions for Purpose is a collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment.</p> <p>Their aim is to promote understanding of impact investment by effectively sharing news stories, blogs, case studies, academic research and thought leadership papers and acting as a first port of call for journalists seeking comment on impact investment-related issues.</p> <p>The Fund has been a strong supporter of the organisation and regularly attends and contributes to their roundtable discussions. Officers are recommending that the Fund becomes an affiliate member, which will benefit the Fund by providing access to valuable information and like-minded organisations, which will assist in implementing the Fund's Responsible Investment Policy.</p> |
| 1.06 | <p><i>Impact Institute</i></p> <p>The Impact Investing Institute was launched in 2019 with a simple mission: to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally. They want to see more capital contributing to the well-being of people and the planet – as set out in the United Nation's Sustainable Development Goals.</p> <p>They developed four guiding principles for pension schemes that give an accessible, practical insight into the opportunity presented by impact investing and the concrete steps trustees can take to pursue an impact investing strategy.</p> <p>The principles were designed and tested through consultation with people across the pensions industry, in partnership with Pensions for Purpose. They offer a good governance framework which tackles the investment process at every stage in the investment chain – from how pension schemes can put in place objectives and set an implementation framework, to how to hold investment consultants and managers to account, and how to report on what is being achieved through a balanced measurement framework.</p> |

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| | <p>The Deputy Head of the Clwyd Pension Fund was involved in the consultation process for the principles which were published in November 2020.</p> <p>The four principles are:</p> <ul style="list-style-type: none"> • Set impactful objectives • Appoint investment managers and consultants with impact integrity • Use your voice to make change • Manage and review your Impact. <p>The Fund is known to the Impact Institute and approached to discuss if we would consider being an early adopter of the principles given the work we already do in this area. The Committee are asked to agree that the Fund adopts these principles given they are aligned with the Fund's Responsible Investment Policy.</p> |
| 1.07 | <p><i>The Good Economy</i></p> <p>The Good Economy is a leading social advisory firm, specialising in impact measurement and management. They have joined forces with the Impact Investing Institute and Pensions for Purpose on a collaborative project designed to mobilise greater flows of institutional investment to more inclusive and sustainable development across the UK (Place Based Impact Investing).</p> <p>The aim of the project is to build market knowledge and influence pension and other institutional investors to consider the opportunities to invest in asset classes that deliver long-term financial returns, as well as tangible place-based environmental, economic and social impacts. This could include investments in affordable housing, clean energy, infrastructure and SMEs among others.</p> <p>They have created a working group with a small selection of Managers and like-minded LGPS to discuss this in more detail. The Deputy Head of the Fund represents the Clwyd Fund on this group.</p> |
| 1.08 | <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 8.</p> <p>The Advisory Panel also receive reports from the following 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 delegations arising from these meetings are detailed in Appendix 2.</p> |
| 1.09 | <p><i>Implementation of Responsible Investment Strategic Priorities</i></p> |

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| | At a meeting of the Committee in 2020, the Fund's revised Investment Strategy Statement was agreed. As part of this a new Responsible Investment policy was also agreed, and this included the Fund's approach to Climate Change. Officers are working closely with advisers to develop a "roadmap" that sets out the Fund's current position and its aims for the future. It is intended to bring the draft roadmap to the Committee in June 2021 together with a work plan considering RI and Climate Change for discussion. |
| 1.10 | <p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 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 going forward. • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • A £15m investment with a Private Equity manager, Livingbridge 7 has been agreed. • Due diligence is currently in progress on two existing managers within the Impact portfolio. |

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

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

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| 4.00 | RISK MANAGEMENT |
| 4.01 | Appendix 3 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 nine risks have remained the same as reported to the October 2020 Committee. Of the nine, 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 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 appropriate returns 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.</p> |

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| 5.00 | APPENDICES |
| 5.01 | Appendix 1 - 2020/21 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding Appendix 4 – Cash Management wording for ISS |

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

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| 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) 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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> |

- (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) A full glossary of Investments terms can be accessed via the following link.
<https://www.schroders.com/en/uk/adviser/tools/glossary/>