CLWYD PENSION FUND COMMITTEE
21 June 2023

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held remotely via Zoom at 9.30am on Wednesday, 21 June 2023.

PRESENT: Councillor Ted Palmer (Chairman)
Councillors: Dave Hughes, Jason Shallcross, Antony Wren

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

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

APOLOGIES: Cllr Sam Swash (Flintshire County Council), Cllr Gwyneth Ellis (Denbighshire County Council)

Advisory Panel comprising: Philip Latham (Head of Clwyd Pension Fund), Gary Ferguson (Corporate Finance Manager), Sharon Carney (Corporate Manager, People and Organisational Development), Karen McWilliam (Independent Adviser – Aon), Paul Middleman (Fund Actuary – Mercer), Steve Turner (Fund Investment Consultant – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Karen Williams (Pensions Administration Manager), Alison Murray (Alternate Independent Adviser, Aon), Sandy Dickson (Investment Adviser – Mercer), Ieuan Hughes (Graduate Investment Trainee), and Morgan Nancarrow (Governance Administration Assistant – taking minutes).

Guest speakers presenting comprising
Aiden Quinn (Russell Investments), James Zealander (Link Fund Solutions)

1. DECLARATIONS OF INTEREST (including conflicts of interest)

The Chair invited attendees to declare any potential conflicts of interest that they may have in relation to the Fund, other than those already recorded in the Fund's register.

There were no declarations of interest.

2. APPOINTMENT OF VICE CHAIR

Following nominations by the Chair and Cllr Shallcross, the Committee reappointed Cllr Dave Hughes as Vice Chair of the Committee.

RESOLVED:

The Committee appointed the Vice Chair and noted that the Chair and Vice Chair are therefore appointed as Member and Deputy respectively of the Joint Governance Committee (JGC) for the Wales Pension Partnership (WPP).

3. **MINUTES 29 MARCH 2023**

The minutes of the meeting of the Committee held on 29 March 2023 were agreed.

RESOLVED:

The minutes of 29 March 2023 were received, approved, and will be signed by the Chairman.

4. **POOLING UPDATE**

Mrs Fielder introduced this item with a brief overview of the report, highlighting:

- An additional objective for the WPP business plan had been requested by the scheme member observer at JGC on 29 March, which the Fund was now being asked to approve.
- The Fund was also being asked to approve changes to the Scheme of Delegations to Officers to reflect that the Fund has allocators through WPP, and that WPP now make the majority of investment decisions on the Fund's behalf. This includes private markets decisions that were previously delegated to the Head of the Fund. There was also an amendment regarding the administration policy.
- The WPP operator procurement process is ongoing and approval of the scoring criteria for this is a reserved matter for constituent authorities, so will be brought to Committee in August, after discussion at JGC in July.

Mr Zealander presented an update from Link Fund Solutions to the Committee, covering:

- The role of Link in relation to WPP, Russell Investments and Northern Trust.
- An update on Waystone's acquisition of Link which was on track to go live on 1 October.
- Link's governance structure and oversight core principles, which will remain in place throughout the acquisition process.
- The launch of the WPP Sustainable Active Equity Fund on 20 June 2023.

Mrs McWilliam asked when the Fund will hear more about the sale of Link Fund Solutions, and given the expectation that Pension Funds will be unaffected by the transition of ownership, she asked whether any work had been done to ensure that the WPP Business Plan can still be delivered in line with both the timescales and the needs of the Funds. Mr Zealander explained that WPP, Link and Waystone's solicitors were currently working on the novation of contracts and an agreement was expected to be reached within the week. Following this it was expected that the constituent authorities will be asked to sign this off within the next fortnight. He also clarified that Link had been assured that the WPP roadmap would be unaffected, and there will be no fundamental changes to the business or senior management team within the first 12 months, to avoid impact on systems and controls.

The Chair then handed over to Mr Quinn to present the update from Russell Investments.

Mr Quinn explained that the launch of the WPP Sustainable Active Equity Fund which followed 18 months of work with the WPP and subgroups, meant the WPP now had ten sub-funds available across the liquid asset classes. The WPP were also in the process of building its private markets programme.

He gave an overview of the sub-funds the Fund invests in, which covered:

- WPP Global Opportunities Equity Fund, from which Clwyd will be transferring all assets across to the WPP Sustainable Active Equity Fund. He provided details of the sub-fund's performance since inception, and how varied investment styles were incorporated into the construction of this portfolio. A similar approach had been used in the construction of the sustainable sub-fund in order to deliver excess returns over time while also considering sustainability.
- WPP Emerging Markets Equity (EM) Fund, including the benefits of investing in emerging markets, and a breakdown of sector and regional allocations. He explained the purpose of the EM sub-fund. Noting that a dedicated EM sub-fund is typically able to provide access to smaller and medium sized companies when compared to global equity sub-funds, and highlighted an example of how this is achieved through Bin Yuan, a specialist manager based in China with a strong focus on sustainability. He also explained the EM sub-fund's decarbonisation aims and strategy, and a summary of the sub-fund's performance to date.

Mr Hibbert commented that an important aspect of emerging markets is having people 'on the ground' in the factories, able to monitor ethical practices to ensure that nothing is going wrong in order to drive profits. He asked how much Bin Yuan can ensure this. Mr Quinn agreed and explained that Bin Yuan's team is entirely based in China allowing them to engage with companies.

Mr Hibbert commented that the Fund does not have a physical ability to verify that companies are operating responsibly, and asked how this is scrutinised. Mr Quinn agreed that this is the key criticism of global investment managers, and highlighted this as the reason for adopting Bin Yuan as a dedicated specialist able to travel, visit factories and meet with suppliers, and who have a sustainability framework well ahead of other managers in China as well as most managers globally in EM, including its commitment to net zero.

Mr Hibbert raised concerns about geopolitical instability around China and Taiwan, and the wider emerging markets regions. Mr Quinn noted that many managers are scaling back on investments that are geopolitically exposed, but that the smaller domestic companies are less exposed to this instability compared to multinational investments. He noted that managers are acknowledging the need to reach an amicable solution particularly between China and Taiwan due to the potential impact on EM and the wider global markets.

Mr Quinn continued to go through the sub-funds, highlighting:

- The Sustainable Active Equity Sub-fund, including how Environmental, Social and Governance (ESG) investing is considered and incorporated by different products, Russell's criteria for sustainable products, and details of the sub-fund's net-zero goal and interim steps.

- Active ownership including proxy voting, engagement and the roles of Robeco, Russell and the underlying managers. Russell will be monitoring and reporting their own engagements and those of the underlying managers for all the WPP sub-funds, and will also provide ESG reporting for the sustainable sub-fund.
- The WPP Multi-Asset Credit Fund (MAC), including how MAC adopts managers specialising in the various underlying fixed income asset classes, and its performance in relation to its goals and the impact of rising interest rates and widening credit spread over 2022.
- Key areas of focus for the future based on the WPP's recent sustainability preferences, including investigating more sustainable fixed income, and the exclusion of companies that violate UN Global Compact Principles.
- Details of the WPP Global Private Credit Fund which was launched in April 2023 and which the Fund will be committing to.

Mr Hibbert asked whether the WPP Sustainable Active Equity Fund falls outside of the WPP stock lending policy. Mrs Fielder noted that the decision for stock lending on the sustainable sub-fund has not been decided yet, and the Fund will be pushing for this not to be included in the stock lending. Mr Zealander confirmed that this is not currently included and will not be unless all authorities approve that decision.

With reference to page 73, Cllr Wedlake asked regarding MAC and given volatility in the markets, which events are likely to push the Fund up along credit rate risk or up interest risk. Secondly, he commented with reference to page 70 stating "less than 40% of assets to be net zero or aligned to net zero" that there is a difference between net zero and alignment to net zero, and asked why there are not targets for both and what is the most likely outcome given current trends of the proportion of assets being net zero compared to those aligned to net zero.

Mr Quinn explained regarding the second question that companies not currently aligned may seek alignment over time, and that there is a constant monitoring of those companies to scrutinize those who are not aligning. He also noted that the data only reflects 50% of the holdings, and dynamics will change as scope 3 emissions data becomes available. There is a need for the sub-funds to grow with the data and frameworks, to seek that alignment over time.

With respect to Cllr Wedlake's first question, Mr Quinn explained that the high yield credit has the most exposure to credit markets, but that it is difficult to look at it in isolation. Looking at securitised credit, it has less exposure to credit markets but does have exposure to 'pockets' and has its largest exposure to US consumers' loans – so if delinquencies rise due to recession, these under-perform while the wider credit markets may not be affected. In this sense, diversity is the point of MAC as although it typically performs at two-thirds of the return of equity, it does so with lower volatility, introduces diversification to the portfolio and helps the overall risk adjusted returns. A future credit event would impact MAC less dramatically than equity markets, giving investors a level of insulation from market events.

Cllr Wedlake noted that securitised credit is most likely to move against the Fund currently given global conditions, but there is a reasonable expectation that the remainder of the sub-fund is still likely to outperform equities and manage risk. Mr Quinn agreed with this summary.

Mr Hibbert asked regarding the sustainable development goals (SDG), if it is possible to provide a profile of how the fund is aligned with goals, to gauge the Fund's impact and where it is directed. Mr Quinn confirmed that this would be provided once the sub-fund is launched. He commented that Russell will use an independent provider who have built a methodology to appraise companies' alignment with SDGs. This data will be used for reporting as well as portfolio management. Mr Dickson clarified that this SDG reporting will only be provided for the WPP Sustainable Active Equity Fund and is not currently available for the other sub-funds.

RESOLVED:

a) The Committee approved the WPP objectives within the WPP Business Plan 2023/24 to 2025/26.
b) The Committee approved the updated Delegation of Functions to Officers to recognise WPP's role in relation to investments within the pool and that Officer delegations are limited to investments outside of WPP, and to change the delegation for Voluntary Scheme Pays Policy to be consistent with other administration policies.
c) The Committee noted the update on other pooling matters.
d) The Committee received and noted the presentation from the WPP Operator and Investment Management Solution Provider.

5. GOVERNANCE UPDATE AND CONSULTATIONS

Ms Murray of Aon talked the Committee through a summary of equality, diversity and inclusion (EDI) guidance recently issued by the regulator. She explained some key points of the guidance and TPR's view that harnessing diverse views can help scheme managers in their decision-making and understanding and mitigating risk. The guidance recommends that schemes should adopt an EDI policy, and while some of the considerations in the guidance have already been addressed within the new Communications Strategy, Ms Murray confirmed that such a policy will be brought to a future Committee meeting.

Mr Hibbert commented that he had not read the full guidance, and asked whether the Committee and Board are expected to reflect the membership, and what the regulator expects them to make progress towards. Ms Murray explained that while the regulator's guidance is high level and does not give specific objectives, it does mention that a scheme with a high proportion of young, active members should have the same demographic represented among the trustee board. She noted that this needs to be balanced with practicality of implementing this considering how Committee appointments are made.

Mr Hibbert noted where the guidance suggests fixed term appointments for scheme member representatives to ensure diversity of representation, that it takes a long time to train for the role appropriately. Mr Hibbert also noted that he has previously criticised WPP who have a two-year fixed term for non-voting scheme member representatives at JGC, and would have similar concerns if a time restriction applied to the scheme member representative on the Committee, particularly where those limitations do not apply to other Committee members. He also noted the need to consider that there may be a significant body of work behind the appointment process in order for the nominating bodies to attract the diversity of people needed to meet EDI aims. Ms Murray agreed that from a governance perspective continuity is a key concern for boards and committees, and particularly around training and commitment. The overall governance objective is to ensure appropriate decisions are made by those with the right knowledge and skills, and while EDI should play a role in this, it needs to be balanced with other factors such as continuity, for example having fixed term appointments staggered to avoid appointing several new members at the same time.

Mrs McWilliam took Committee through the other key points in the report, including:

- An update on the Pension Board membership. She expressed her gratitude for the time and commitment of both the Board's employee representatives, Mr Steve Jackson who had agreed to continue in his role for a further two years, and Mr Steve Gadd who would be leaving the Board. Work is ongoing to fill the new vacancy in the Board.
- The new format of the Annual Joint Consultative Meeting (AJCM) consisting of a set of video recordings and a drop-in session for one-to-one discussions for employer and employee representatives to engage on 7 December.
- The training needs analysis which is a requirement of the knowledge and skills policy. The Committee were asked to complete the electronic survey when this is circulated, noting that paper copies can be provided on request.
- External training opportunities, including the LGA fundamentals training which is particularly aimed at newer members. Mr Hibbert commented that he had attended this course twice in past years and would highly recommend it as an opportunity for Committee members to improve their understanding of key issues.
- The accountant post which had now been filled, beginning on 24 June.

Cllr Wedlake asked if there would be more training added to the plan following the Training Needs Analysis, and Mrs McWilliam confirmed this.

The Vice Chair gave his apologies for the essential training on 2 August.

RESOLVED:

The Committee considered and noted the update.

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 following item by virtue of exempt information under Paragraph(s) 18 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

6. GOVERNANCE UPDATE AND CONSULTATIONS (APPENDIX) - CONFIDENTIAL

The Chair asked for any comments or questions relating to this item of the agenda, of which there were none covered in private.

7. PENSION ADMINISTRATION/COMMUNICATION UPDATE

Mrs K Williams took the Committee through the administration and communications report, providing updates on:

- The McCloud remedy including the McCloud working group, and the open DLUHC consultation.
- The delivery of the National Pensions Dashboard which has been delayed. The impact of delays on staging and onboarding dates is unclear, so the Fund is continuing preparations as communicated to the Committee at past meetings.
- Workforce, including changing the newly appointed project team Principal Pensions Officer from a job share to a single role due to resourcing issues, as well as backfilling new vacancies and the current recruitment drive.
- Results of the member satisfaction survey and the employee focus groups for which there were 73 volunteers, and the employer survey.

Mr Hibbert asked how the trade union challenge to the cost of McCloud being met by employers and members had progressed. Mrs Williams did not have an update to hand but will look into this and provide an update to Committee.

Cllr Wedlake asked if it is possible to compare the survey responses to previous surveys, and Mrs Williams confirmed that with the exception of last year's results, previous survey results have been published in the corresponding annual reports.

RESOLVED:

The Committee considered and noted the update on administration and communication matters.

8. **INVESTMENT AND FUNDING UPDATE**

Mr Hughes presented this item, highlighting:

- Transition of around £130m of assets from the global opportunities fund with an additional £65m of cash to the sustainable global active equity sub-fund. The allocation to this fund will be increased to the target allocation of 15% of total assets (c.£330m).
- Climate reporting progress, including TCFD and UK stewardship code.
- The actuarial valuation report and certificate were signed on 30 March with employer contributions effective from 1 April.
- The draft ISS will be taken to August committee for approval following the training day on 2 August.
- An update on the various private market allocations.
- Delegations and cashflow forecasting.

Mr Hibbert asked if there was any update regarding Robeco voting with management to explore new oil fields rather than extracting from existing fields, as Mrs Fielder had agreed to discuss this with them. Mrs Fielder explained that there was no update but that the Fund has several questions to ask of Robeco at the RI subgroup meetings. She also noted that WPP will be hosting a training session in the coming months on voting and engagement, which Robeco will be involved with.

Cllr Wedlake asked for clarification on whether Robeco close their engagements when targets are set, rather than when targets being monitored are reached. Mrs Fielder explained that Robeco's engagements are updated throughout a three-year cycle. Robeco's role is to provide engagement information, and at the end of the three-year cycle, if progress is not made, the WPP is responsible for making a decision on further action. The WPP RI Working Group is currently working with Hymans to produce an escalation policy for failed engagements, which both Mrs Fielder and Mr Latham have sought after for some time.

RESOLVED:

The Committee noted the update.

9. ECONOMIC AND MARKET UPDATE AND INVESTMENT STRATEGY AND MANAGER SUMMARY

The Fund's Investment Consultant, Steve Turner of Mercer explained that this report was to be taken as read, and highlighted some key messages:

- Inflation in the UK is persistent and higher than other countries, leading to higher interest rates. The Fund has gone through further interest rate triggers in the framework, so is now at 60% level interest hedging vs liabilities, compared to an ultimate target of 70%. The inflation hedging level remains around 40%. This meant the Fund could expect greater certainty of achieving the return needed to meet the pension liabilities over the long-term, leading to improved stability in the funding level.
- Return seeking markets in the year to date have been positive generally, especially in global equities where returns have been driven by a small number of companies involved with artificial intelligence (AI).
- MAC remained an attractive asset class for risk-adjusted returns, given the level of yields available.

Mr Hibbert commented that there are some wider criticisms of AI, and Mr Turner noted that the market appears to be looking towards productive uses of AI.

Cllr Wedlake noted that interest rates globally may fall sooner than in the UK, and asked if there is a downside to hedging that could affect the fund as rates reduce. Mr Turner noted that the US Federal Reserve typically leads other central banks, and tends to have a strong influence globally on markets. If yields fall, this is expected to be very positive for other asset classes, particularly equities and credit.

RESOLVED:

The economic and market update and performance was noted by Committee.

10. FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK

Mr Middleman opened with an overview of the Fund's financial health and status of triggers in the framework. The framework and flightpath was providing funding stability and was performing well under volatile market conditions. Whilst the absolute performance figures of the flightpath were negative, this was offset somewhat by the changing liabilities, meaning despite ongoing and upcoming challenges, the framework was functioning as intended and has remained resilient despite the challenging market conditions.

The Pensions Regulator (TPR) had issued guidance around LDI and collateral requirements, and the Fund was well within these tolerances and can withstand significant market movements.

While the funding position remains healthy, overall monitoring will continue, particularly with persistent inflation which directly impacts the pensions liability risk. This includes monitoring of collateral levels in conjunction with Insight as the LDI manager.

With reference to paragraph 1.05, Mr Hibbert requested more detail on where the Fund would look for more liquidity following divestment from the existing collateral waterfall. Mr Turner explained that there is potential scope to move assets from the TAA portfolio if needed. He noted that the Fund's minimum target for yield headroom is 3% and the Fund is currently approaching 6%, leaving a buffer, but liquidity is available to realise if needed. A thorough cashflow analysis will be discussed over the coming months to inform future planning for overall liquidity. Mr Hibbert asked if this decision making will integrate ESG issues, and Mr Turner explained that while cashflow tends not to be focussed on ESG issues, ESG considerations are integrated into all of Mercer's investment thinking and advice to the Fund.

Mr Middleman acknowledged Mr Hibbert's concerns for ESG relating to cash management. He explained that the ESG element of the flightpath is a core component and is being considered in how the hedges are supported taking into account all ESG objectives. This will be a decision for the Committee in due course on how it is delivered in the same way as the wider discussions on Responsible Investment. However the Fund will need to be mindful of the implementation side as implementation needs to be appropriate and practical to achieve the overall objectives.

RESOLVED:

The Committee considered and noted the contents of the report.

11. FUTURE MEETINGS

The Chair asked the Committee to note the following future Committee meeting dates:

- Wednesday 30 August 2023
- Wednesday 29 November 2023
- Wednesday 28 February 2024
- Wednesday 20 March 2024
- Wednesday 19 June 2024

RESOLVED:

The Committee noted the upcoming Committee dates.

The Chairman thanked everyone for their attendance and participation. The next formal Committee meeting is on 30 August 2023. The Chair also took the opportunity to highlight the upcoming essential training session on Responsible Investment on 2 August, which will be held in person at County Hall. Analysis will be circulated ahead of the training.

The meeting finished at 11:45am.

…………………………………….

Chairman