

CLWYD PENSION FUND COMMITTEE	
Date of Meeting	Wednesday, 30 August 2023
Report Subject	Responsible Investment Policy within the Investment Strategy Statement
Report Author	Head of 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 2022. 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 February 2023, the review of the investment strategy was presented along with the first draft of the ISS, members agreed to a new strategic asset allocation, but proposed changes to the ISS in relation to some of the Fund's Responsible Investment (RI) policies.

As a result, Officers along with the support of the Fund's consultants, now recommend an 'Exclusions Policy' in relation to 'fossil fuel' companies.

The revised Responsible Investment Policy within the ISS is now attached as an Appendix to this report, and has been updated to reflect the Fund's new exclusion policy.

RECOMMENDATIONS

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| 1. | The Committee note, comment on, and approve the revised Responsible Investment Policy of the Investment Strategy Statement, for consultation. |
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REPORT DETAILS

1.00	2023 Revision of Investment Strategy Statement
1.01	<p>The LGPS Investment regulations require that the Fund “consults with such persons as it considers appropriate as to the proposed contents of its investment strategy”. As such the amendments to the RI policy will be going for consultation.</p> <p>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.</p>
1.02	<p>The Committee approved the first Clwyd Pension Fund ISS in 2017, and the last revision was February 2022.</p> <p>Since then, a full review of the Investment Strategy was undertaken in tandem with the 2022 actuarial valuation. The Committee met in February 2023, to discuss the investment strategy review and the first draft of the ISS.</p> <p>The Committee agreed to accept the revised strategic asset allocation presented, however, further changes were proposed in respect of sections within the Fund’s RI policy, specifically in relation to reducing exposure to fossil fuels. It was agreed at the time that additional training topics would be arranged for Committee to discuss this.</p> <p>Committee have since received three training sessions on the topic: 26 April 2023, 3 May 2023 and 2 August 2023.</p> <p>The first sessions (26 April 2023 and 3 May 2023) covered the history of the Fund, how the Fund’s funding position and investment strategy has evolved over time and highlighted the practical implementation challenges that the Fund faces. In particular, with pooling the Fund has to work in collaboration with other partner funds across Wales to implement policies collectively.</p> <p>These sessions also covered Responsible Investment, with a focus on what to consider when setting divestment policies. The Committee discussed the challenge in defining fossil fuel exposure due to a range of companies involved in the value chain. The session also proposed a potential framework within which to consider divestment policies.</p> <p>The training session on 2 August 2023 revisited the divestment assessment framework and proposed four divestment policies to review. These were debated and agreed by the members present at the meeting. At this session, a divestment policy (the ‘Fund’s Ambition’) was discussed by members present at the meeting, along with a ‘Minimum Objective’.</p> <p>As a result, the revised ISS now incorporates the exclusion policy, which has been formally labelled as the Fund’s ‘Exclusion Policy’ and is noted below in section 1.03.</p>

In addition to the exclusions policy, the draft ISS also notes that “where companies in carbon-intensive sectors do not demonstrate a credible strategy to attain net zero over time, and are not considered to be on the right trajectory to make progress in this area, the Committee’s policy view is that selective divestment is potentially a valid outcome. Given the pooled fund nature of the investments, the Committee recognises that its actual ability to divest is dependent on the processes and policy of the Wales Pension Partnership. The Committee will actively engage with the Wales Pension Partnership on this area.”

1.03

Exclusion Policy

An exclusions policy assessment framework has been developed and the Fund will develop a plan to implement the following exclusions:

The policy is to exclude companies which breach the following thresholds:	Minimum Objective	Fund’s Ambition
[x%] or more of revenues from exploration, mining, extraction, distribution and / or refining of hard coal and lignite	1%	Same
[x%] or more of revenues from Oil: companies involved in exploration, extraction, refining and / or distribution of oil fuels.	10%	1%
[x%] or more of revenues from Gas: companies involved in exploration, extraction, manufacturing or distribution of hydrocarbons, hydrogen and carbon monoxide mixtures present in gaseous state.	50%	1%

The above policy applies to the physical listed equity assets initially. This is because this part of the portfolio has the most comprehensive and accurate data on which the policy can be analysed and monitored in a robust and cost efficient way. The ambition of the Fund is to consider the application of the exclusions policy to all parts of the portfolio over time, based on the availability of robust data and implementation practicalities.

The Fund is seeking to implement the above “Fund’s Ambition” exclusion policy. It is recognised that, at present, there are limited implementation options for this policy. As a result the Fund has established a “Minimum Objective” exclusion policy which is aligned with the Paris Aligned Benchmark

	<p>and as such believes is practically more implementable.</p> <p>The Fund recognises that in order to implement the exclusions policy it will need to work with the Wales Pension Partnership. Given the pooled fund nature of the investments, the Fund will take a best efforts approach and acknowledges that this could result in companies being held which are not consistent with the above exclusion policy. This will be monitored on an annual basis with an explanation sought, if companies are held in breach of the exclusions criteria.</p>
1.04	<p>The updated Responsible Investment Policy within the ISS is attached as an appendix to this report and the key changes are highlighted in the document and summarised below:</p> <ul style="list-style-type: none"> • New Exclusions Policy • Changed target for sustainable listed equities to be all holdings by 2030 • Successful application to the UK Stewardship Code 2020 • Selective divestment from companies without a credible net zero strategy <p>Committee members are asked to approve the Responsible Investment Policy within the Investment Strategy Statement which will then be consulted on with employers.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>The continued high focus on responsible investment and climate change matters increases the amount of work for both officers and advisers. The impact relating to offer resource will continue to be monitored. There will be a cost to implementing the Exclusions Policy, which will be incorporated into the 2024/25 and future year budgets.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>The LGPS Investment regulations require that the Fund “consults with such persons as it considers appropriate as to the proposed contents of its investment strategy”.</p> <p>The Fund’s will consult with its employers and seek their views on the amendments.</p>

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

5.00	APPENDICES
5.01	Appendix 1 – Proposed Investment Strategy Statement (ISS)

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>1. Current ISS available in the strategies and policies section of the CPF website - https://mss.clwydpensionfund.org.uk/home/investments-and-governance/</p> <p>Contact Officer: Philip Latham, Head of the Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <p>(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.</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) Absolute Return – The actual return, as opposed to the return relative to a benchmark.</p> <p>(d) Annualised – Figures expressed as applying to 1 year.</p> <p>(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.</p> <p>(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.</p> <p>(g) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cashflows.</p> <p>(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.</p> <p>(i) Three-Year Return – The total return on the fund over a three year period expressed in percent per annum.</p>

(j) **Time-Weighted Rate of Return** – The rate of return on an investment removing the effect of the amount and timing of cashflows.

(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/>