

Business Plan 2021/22 to 2023/24 – Q2 Update

Funding and Investments

Key Tasks

Key:

| | |
|----|--|
| | Complete |
| | On target or ahead of schedule |
| | Commenced but behind schedule |
| | Not commenced |
| xN | Item added since original business plan |
| xM | Period moved since original business plan due to change of plan /circumstances |
| x | Original item where the period has been moved or task deleted since original business plan |

Funding and Investments (including accounting and audit) Tasks

| Key Action –Task | 2021/22 Period | | | | Later Years | |
|---|----------------|----|----|----|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 | 2022/ 23 | 2023/ 24 |
| Implement Responsible Investment Strategic Priorities | x | x | x | x | x | x |
| Climate Change | x | x | x | x | x | |
| Ongoing Asset Pooling Implementation and Transition | x | x | x | x | x | x |
| Interim Funding Review and FSS policy update | x | x | x | x | | |

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Implement Responsible Investment Strategic Priorities

What is it?

The Fund agreed its updated Responsible Investment policy in February 2020 with five key priorities which are as follows:

- Evaluate and manage carbon exposure
- Identify sustainable investment opportunities
- Improve public disclosure and reporting
- Active engagement on ESG risks
- Comply with the FRC Stewardship Code.

Alongside its Investment Strategy Review in 2019/20 the Fund reviewed and revised its Responsible Investment Policy. The Policy was split into a number of key areas setting out the Fund's approach to being a Responsible Investor. The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to do it all in one go. It has therefore decided to set the following strategic priorities for its work over the three years from 2020/1 to 2023/4:

- **Evaluate and manage carbon exposure**
 - This will include measuring the Fund's existing exposure to carbon within its investment portfolio, and once this has concluded, set targets to reduce this over the coming five years.
- **Identify sustainable investment opportunities**
 - The Fund's new Investment Strategy has an allocation to Social/Impact investments, or investments that aim to make a positive social or environmental impact. The Fund already has a number of investments in this area and will be looking to add to these.
- **Improve disclosure and reporting**
 - The Fund will be working to improve transparency and reporting. An analysis of the impact of Climate Change on the Fund's Investment Strategy will form part of this work.
- **Active Engagement on ESG risks**
 - To work proactively with WPP and LAPFF¹ to actively engage with the Fund's underlying investments.
- **FRC Stewardship Code**
 - The Fund is currently a signatory to the Code; however a new Code was launched in 2019. The aim is to assess the potential to remain a signatory.

In addition to these priorities, the Fund is aware that the Scheme Advisory Board and MHCLG will be issuing revised guidance on Responsible Investing in 2021, and it will be important to review the Fund's policy and update if necessary to ensure it remains relevant and compliant.

¹ LAPFF is the Local Authority Pension Fund Forum, which aims to protect the long-term interests of beneficiaries through promoting high standards of corporate governance and responsibility.

Timescales and Stages

| | |
|--|--------------------|
| Continue to work on the Fund's strategic priorities for Responsible Investment | 2021/22 to 2022/23 |
| Identify sustainable investment opportunities relating to social/impact | 2021/22 to 2023/24 |
| Assess potential for investing locally – consider Regional Growth Bid | 2021/22 |
| Review and revise RI Policy when national guidance is issued | 2021/22 |
| Work with WPP to develop and submit application for new Stewardship Code | 2021/22 |
| Work with WPP to develop TCFD compliant reporting | 2021/22 to 2022/23 |

Resource and Budget Implications

Estimated costs for the implementation are contained within existing plans/budgets including the costs of external consultants.

F2 – Climate Change

What is it?

As part of the Fund's revised Responsible Investment Policy there is a section where the Fund defines its approach to Climate Change. The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders.
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based divestment is appropriate to facilitate the move to a low carbon economy.
- As well creating risk, it also presents opportunities to make selective investments that achieve the required returns whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

As part of its desire to address the risk around Climate Change the Fund is planning to set out a roadmap to move from the current position to a more sustainable future strategy. This plan will include Carbon footprinting analysis and Climate Change scenario analysis which the Fund has commissioned from Mercer. The Roadmap could include considering a Net Zero Carbon emissions target.

This Roadmap and work program will be delivered over the coming years, and needs to be carried out in conjunction with the WPP plans.

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|---|-----------------|
| Assessment of Carbon footprinting and Strategic Climate Change scenario analysis results | 2021/22 Q1 |
| Consult Committee with proposed roadmap | 2021/22 Q2 & Q3 |
| Assess how to implement Committee's views, in conjunction with WPP (including TCFD reporting) | 2021/22 Q3 & Q4 |
| Ongoing implementation and monitoring | 2022/23 |

F3 – Ongoing Asset Pooling Implementation and Transition

What is it?

WPP was created to allow the pooling of assets across the Welsh LGPS Funds. The assets are continuing to be transitioned to WPP's Operator and further policies and procedures developed to ensure the proper management of WPP.

The Government (MHCLG) will be producing pooling guidance at some stage in 2021/22, and the Fund and WPP will need to be fully conscious of this, and ensure that it can remain compliant with its requirements.

Governance

WPP has developed a three-year business plan for 2021/2 to 2023/4 which includes the key areas of focus during that period. The Business Plan highlights a significant work program for the pool, and the Clwyd Pension Fund will be working with WPP to deliver these key milestones.

Implementation

COVID-19 related market volatility has affected WPP's transition plans. Market volatility could result in significant increased transition costs, and as such transitions were delayed in 2020/21. It is likely that future transitions may well be impacted.

The Fund will work with WPP to transition remaining assets in coming months and years.

Responsible Investment

The WPP has developed its own Responsible Investment Policy and will be working with the constituent authorities to develop this and implement it appropriately across the launched sub-funds. This will include looking at voting with Robeco as appointed engagement specialist. The Clwyd Pension Fund will look to work with WPP to ensure that WPP's Responsible Investment policies and strategies enable Clwyd's Pension Fund's Responsible Investment Policy to be implemented and enhanced.

Timescales and Stages

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|---|--------------------|
| Governance | |
| Consider and implement MHCLG asset pooling guidance | 2021/22 to 2022/23 |
| To work with WPP to deliver all aspects of its Business Plan ensure that it remains on track | 2021/22 to 2023/24 |
| Provide views to host on WPP operator arrangements and oversight | 2021/22 |
| Provide input to preparation for operator market review and re-tender | 2021/22 to 2022/23 |
| Ongoing Establishment | |
| Transition of assets to newly launched sub-funds: | |
| <ul style="list-style-type: none"> ▪ Emerging Markets | 2021/22 Q2 |
| <ul style="list-style-type: none"> ▪ Private Markets | 2021/22 to 2022/23 |
| <ul style="list-style-type: none"> ▪ Review and develop a mechanism to pool any suitable non-pooled asset e.g. Flight Path | 2022/23 to 2023/24 |
| Responsible Investment | |
| Work with WPP to ensure that it can support CPF in delivering its own Responsible Investment and Climate Change beliefs and requirements | 2021/22 to 2023/24 |
| Feed into development of WPP reporting including ESG and climate change | 2021/22 to 2023/24 |

Resource and Budget Implications

2021/22 and future budgets will include CPF's share of the governance costs managing the pool, and also its share of fees relating to pooled assets. For 2021/22 the estimated cost of governance for CPF in relation to WPP is £130k, which includes an estimated share of the Host Authority costs (£23k), consultant and legal advice direct from WPP (£85k) and the estimated costs CPF expects to bear directly from its own consultants for advice in relation to the WPP (£22k). Any other costs relating to the WPP will be met from within existing budgets.

F4 – Interim Funding Review

What is it?

In advance of the 2022 actuarial valuation, the Actuary will assess the funding position as at 31 March 2021 in order to prepare the Fund and employers for the potential contribution outcomes from the 2022 valuation.

Due to the impact of COVID-19, a number of the Fund's employers will likely suffer impacts on budgets and therefore affordability of contributions in the short and long term. It will therefore be appropriate to consider the key funding metrics which will involve analysing the outlook for returns, the likelihood that average contributions would need to increase at the next valuation and the potential impact of Brexit. This will be crucial in quantifying the financial risk and market changes since the previous valuation. This analysis will assist the Fund to understand employer contribution affordability so that plans can be made considering

the current funding position and the future outlook for returns. This is likely to mean earlier engagement than previously expected for some employers.

As part of the interim review, we will also consider the potential impact that COVID-19 has had on the life expectancy of the membership. This will then be built into the assessment.

Timescales and Stages

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|---|-----------------|
| Monitoring of funding metrics and risk levels | 2021/22 Q1 & Q2 |
| Engagement with employers to assess impact of COVID-19 | 2021/22 Q3 & Q4 |
| Carry out interim funding review | 2021/22 Q3 & Q4 |
| Results and discussion with employers via steering groups | 2021/22 Q3 & Q4 |

Resource and Budget Implications

This exercise will be performed by the Fund Actuary. It is an important exercise for the Fund and will involve input from both the Clwyd Pension Fund Administration and Finance teams. An allowance has been made in the 2021/22 budget for the full interim review.