PENSION BOARD 7/03/22

Present:

Employer Representatives: Cllr Aled Evans (Chair) and Sioned Parry

Member Representatives: H. Eifion Jones, Osian Richards and Sharon Warnes

Officers: Dafydd Edwards (Fund Director), Delyth Jones Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

Others invited: Councillor Peredur Jenkins (Chair of the Pensions Committee)

1. APOLOGIES

Apologies were received from Huw Trainor (Employer Representatives)

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

It was noted that as a result of the situation in Ukraine, a number of enquiries had been received seeking information about the Fund's links to Russia. It was noted that the following statement had been released by the Wales Pension Partnership on behalf of the 8 Local Government Pension Funds (LGPS) in Wales. It was reiterated that the Gwynedd Pension Fund had contributed to the statement and supported the stance of the Wales Pension Partnership, which explained our position:

The situation in Ukraine is the cause of great sadness to us and our thoughts are with the people of Ukraine.

The total of our links to Russian Investments are very small and are less than 1%. Nevertheless, in light of the awful events we are seeing and the economic sanctions set internationally, we have made a mutual decision that we should divest from these holdings as soon as practically possible.

Under the circumstances, we do not believe that being involved with these companies is a possible option.

4. MINUTES

The Chair accepted the minutes of the previous meeting of this committee, held on 6 December 2021, as a true record.

Osian Richards was congratulated on his appointment as member representative on the Wales Pension Partnership's Joint Governance Committee. It was noted that the appointment would be formally confirmed at the next Joint Committee meeting.

5. MINUTES OF PENSIONS COMMITTEE

Submitted for information - the minutes of the Pensions Committee held on 17 January 2022.

6. PENSION ADMINISTRATION STRATEGY

A report was submitted by the Pensions Manager in response to the requirements of the Good Governance Review for every administrating authority to produce and publish an administrative strategy that was flexible and achieved the requirements of the LGPS Regulations.

It was explained, as part of the preparations for the good governance project, that a draft copy of the strategy had been shared with Hymans Robertson in order to receive feedback. It was confirmed that the Administration Strategy touched on the appropriate fields and they were of the opinion that they met all current requirements and those additional requirements that derived from the Good Governance review.

Gratitude was expressed for the report

During the ensuing discussion, the following observations were made by members:
- That the content of the document was orderly
- The function / task and performance target tables were very clear and detailed.

In response to a question about consulting with employers, it was highlighted, following the views of the Board, that the strategy would be shared with the employers for observations prior to approval by the Pensions Committee. It was noted that the intention was to implement the strategy from 1 April 2022, and not 1 January 2022 as noted in the report. It was added that the strategy would be reviewed and updated as needed to reflect the changes in the plan's regulations and in the Fund's work practices.

In response to a comment regarding the timetable for monitoring the strategy's implementation, it was considered that only key matters would need to be monitored, suggesting that this was done every 6 months (or as a matter of urgency should there be a need to highlight concerns). It was suggested to hold an annual review of the main document and for it to be submitted to the Board for comments.

In response to a comment stating that some funds fined employers for a lack of response, it was noted that the Administration Unit's purpose was to collaborate and encourage compliance and not issue fines.

In response to a suggestion to give a maximum of 10 working days to respond to requests for information / complete tasks such as key performance indicators to the administrative unit, it was noted that this was acceptable.

RESOLVED to accept the information

7. BUDGET 2022-23 PENSIONS AND INVESTMENT UNIT

The Investment Manager submitted a report seeking the Committee's approval of a budget for the Pensions Administration Unit and the Investment Unit for the 2022-2023 financial year.

It was reported that the budget had been approved by the Pensions Committee on 17 January 2022. It was explained that the 2022/23 budget now included adaptations to the staffing structure of the Pensions Administration Unit in response to the increasing complexity of the scheme, the challenge of receiving correct and timely data and the McCloud project. These included:

- Creating four new posts
  Pensions Officer (to support the AVCs work) and three Pensions Assistants (two-year contract for the McCloud project - with a possibility of an extension should the work last more than two years)
- Increasing the salary of six Pensions Assistants from GS3 to GS4

It was noted that the budget did not include Investment Manager or Consultant fees, as they varied significantly. Nevertheless, it was noted that the expenditure would be reported in full within the final accounts and the Fund's Annual Report.

Gratitude was expressed for the information.

Mr Eifion Jones, who was present at the Pensions Committee on 17-01-22 as an observer, noted that the Committee had considered additional costs to the structure of the Administrative Unit in detail and that the decision to approve the expenditure had been reasonable and fair.

In response to a question regarding increasing the salaries of the pensions assistants, it was confirmed that the jobs were being evaluated in accordance with the requirements of the Council's job evaluation process by the Corporate Support Service.

RESOLVED to accept the report

8. OBJECTIVES FOR INVESTMENT CONSULTANTS REVIEW

Submitted - the report of the Investment Manager, reporting on the progress against the current objectives as well as the objectives for the future. It was reported, following a review of the investment consulting and fiduciary management markets, that the Competition and Markets Authority noted that Pension Scheme Trustees should set objectives for their investment advisers, and clearly stipulate the expectations upon them.

Reference was made to the current objectives as well as the progress made against those objectives in 2021. Attention was drawn to the new objective added for 2022 in response to a world-wide increase in this field - Developing the Committee's understanding of climate risk and Environmental, Social and Governance Criteria (ESG). The objective's aim was to ensure that the investment consultants developed the understanding of the Committee of ESG and climate risk matters, to support the implementation of governance requirements of the Task Force on Climate-related Financial Disclosures

(TCFDA) and help the Committee to understand and manage climate related risks within the strategy.

It was highlighted that the compliance statement had been signed by the Chair of the Pensions Committee by the mandatory closing date of 7 January 2022.

It was reported that Hymans was delivering good work, providing comprehensive quarterly reports for the investment panel, offering practical and prompt advice, responses and correspondence, and performing in accordance with the objectives. It was noted that the procedure ensured that the partnership between Hymans and the Fund was transparent.

Gratitude was expressed for the report.

In response to a comment about how the ESG funds performed in comparison with others (considering that a substantial amount of money was being invested here and possibly led to a situation of overpricing), it was noted that it would be possible to request advice from Hymans on this.

RESOLVED to accept the information

9. KNOWLEDGE AND SKILLS POLICY AND 2022/23 TRAINING PLAN

A report was submitted by the Investment Manager in response to the recommendations of the Good Governance Review for authorities to ensure that the Fund's officers, as well as the members of the Pensions Committee, had a sufficient level of knowledge to be able to undertake their respective roles effectively. It was noted, as a part of preparing the new policy, that a draft copy of the policy had been shared with Hymans Robertson in order to receive feedback, and the Board's observations were sought before it was submitted for approval to the Pensions Committee on 17 March 2022.

Reference was also made to the Training Plan that had been drawn up for 2022/23 and to the importance of having an induction process in place for potential changes to the Pensions Committee and Pension Board following the elections in May 2022. Attention was drawn to the training record and Members were asked to ensure that they recorded attendance at the virtual training sessions they attended, with the Investment Manager.

Gratitude was expressed for the report

During the ensuing discussion, the following observations were made by members:

- It appeared that substantial weight was placed on technical training, but what about considering other fields / aspects, e.g. morals and data protection - should this be referred to in the document?
- There was a need to outline the basic skills that needed to be completed and to highlight when? and how?
- Consider creating a training matrix
- Emphasise the need for everyone to take advantage of the training being offered by the Wales Pension Partnership
- A request was made to receive training dates well in advance

In response to a comment on the basic skills, it was highlighted that reference was made to the LGPS Essentials course under the Induction Process heading in the policy, but that it was possible to highlight that the course needed to be completed before members voted.

RESOLVED to accept the information

10. RESPONSIBLE INVESTING POLICY

A (draft) Responsible Investment Policy was submitted to the Pension Board for discussion and to offer observations prior to submission to the Pensions Committee for formal approval on 17 March 2022. It was noted, as a part of preparing the policy, that discussions had been held with Hymans Robertson.

It was reported that the Fund acknowledged that environmental, social and corporate governance matters could be a financial risk to stakeholders and could influence the returns and long-term reputation of the Fund. In addition, it was noted that the Fund had released two responsible investment statements in April and July 2021 and it had now formalised the beliefs within the policy.

Reference was made to the fact that the Fund intended to commit to set an objective to be net zero by 2050, supported by a commitment to assess the feasibility of the Fund to reach net zero 5, 10 or 15 years earlier, with a framework developed to support the Fund's ambitions, encompassing opportunities, engagement and monitoring and metrics. It was highlighted that the net zero target corresponded with the target of the Government and Russell Investments, and although it was difficult to set a target without considering how to reach it, it was considered that collaborating to reach the target was realistic.

Gratitude was expressed for the report

During the ensuing discussion, the following observations were made by members:

- Accepted that it was difficult to set a target - proposed setting steps / milestones leading up to 2050 so that it was possible to monitor / report on those steps
- Suggestion that investment monitoring steps could be used
- Suggestion to consider drawing up a 'carbon bank' as seen in the Construction Sector, and set aims to focus the mind - no commitment but highlight the expectations
- It would be wise not to consider a target and not commit to pressure from the press
- From receiving guidance and metrics from the TCFD, it would be easier to take steps forward
- Receive acknowledgement for environmental matters, but also need to consider social and corporate governance - human rights, war, bribery and corruption - suggest that this needs to be elaborated upon.

In response to a comment on setting milestones, it was noted that although it was accepted that milestones would be set in any normal plan, it would be difficult to do so in this context due to the reliance on other bodies. It was reiterated, in terms of investment steps, that they were not aware of any asset management companies that set milestones.

In response to a comment on considering aspects beyond environmental matters, it was noted that the document had been created before the Ukraine-Russia War and therefore the need to add a clause about fiduciary duty was accepted, following research into legal aspects.

The Chair of the Pensions Committee noted that discussions had been held with the Wales Pension Partnership (WPP) and that the statement regarding the fund's stance and Russian-linked investments had been drawn up very quickly. It was reiterated that a group within WPP was considering social and governance aspects and discussions entered into investment considerations.

In response to a comment about companies such as Shell, BP and Coca Cola which had links to Russia and that the governance element was relevant to this, it was noted that Robeco had been commissioned to engage with the Fund's asset managers to act on our behalf and this was considered to be a positive action.

Although a number of the comments were accepted, it was concluded that there was no need to overly adapt the document at the moment, except for adding the clause about fiduciary duty, but it would be possible to add to the document as more information came to hand about social and governance aspects.

The information was accepted.

11. 2022 VALUATION: ACTUARIAL ASSUMPTIONS

A report was submitted by the Fund Director highlighting the actuarial projections approved by the Pensions Committee on 17-01-22, as ones to use in the 2022 valuation. It was explained that the basic actuarial assumptions were a key element of the funding strategy and they should seek to reflect the Fund's expectation in future along with the desired risk level. As more information becomes available, the environment in which the Fund operates evolves and the balance between prudence and affordability shifts in light of external factors. Therefore, it is both necessary and good practice to review the actuarial assumptions adopted by the Fund as part of every triennial valuation.

It was reported that the purpose of the valuation was to review the current funding strategy in light of changes to the economic, regulatory and social environment;set a contribution rate for every employer that will be paid (in this case) from 1 April 2023 to 31 March 2026, at which point rates will be re-assessed at the 2025 valuation; and check the current funding position.

Reference was made to the financial and demographic projections, explaining the logic for what was proposed for 2022 as well as the reasons for any change. It was added that the meeting held on 17 January 2022 with the Members of the Pensions Committee, H. Eifion Jones (Board Representative), the officers and the Actuary detailing the assumptions had been very beneficial.

It was explained that the presumptions would be formalised in an updated version of the Funding Strategy Statement in January 2023 (draft) and in March 2023 (final version), as a part of the 2022 valuation process.

Gratitude was expressed for the report.

During the ensuing discussion, the following observations were noted:

- That it was important to keep a balance - did not want too much of a risk.
- Accepted that using a prudent limit of 75% was sensible.

In response to a question about risk levels and whether it would be possible to consider setting a minimum and maximum % (considering that the triennial actuarial valuation in 2019 was funded to a level of 108%), it was noted that it would be difficult to anticipate what the situation would be, since the funding level depended on many factors and was difficult to project. In response to a supplementary question regarding the discount rate, it was noted that this was also difficult to project, and therefore it was resolved to adopt a risk-based approach.

The information was accepted

The meeting commenced at 1.30 pm and concluded at 3.20 pm

CHAIRMAN