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## PENSIONS COMMITTEE 24-06-21

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### **Attendance:**

**Councillors:**, Stephen Churchman, Goronwy Edwards (Conwy Borough County Council) Simon Glyn, John Brynmor Hughes, Peredur Jenkins, John Pughe Roberts, Ioan Thomas and Robin Williams (Isle of Anglesey County Council)

### **Officers:**

Dafydd Edwards (Head of Finance Department), Delyth Jones-Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

### **Others invited:**

Sharon Warnes (observing – Pensions Board Member)  
Yvonne Thomas (Audit Manager, Audit Wales)  
Garmon Williams (Senior Auditor, Audit Wales)

#### **1. ELECTION OF CHAIR**

**Resolved to re-elect Councillor Peredur Jenkins as Chair of the Committee for 2021/22.**

#### **2. ELECTION OF VICE-CHAIR**

**Resolved to re-elect Councillor Stephen Churchman as Vice-chair of the Committee for 2021/22.**

#### **3. APOLOGIES**

Apologies were received from Councillor Aled Wyn Jones.

#### **4. DECLARATION OF PERSONAL INTEREST**

None to note

#### **5. URGENT ITEMS**

None to note

#### **6. MINUTES**

The Chair accepted the minutes of the meeting held on 25 March 2021 as a true record.

**7. THE FUNCTION OF THE PENSIONS COMMITTEE IN APPROVING THE FUND'S STATEMENT OF ACCOUNTS AND ACCEPTING THE RELEVANT REPORT FROM AUDIT WALES**

It was explained, as a matter of course, that the Audit and Governance Committee was responsible for considering and adopting the Operational Arrangements to reflect the statutory requirements on local authorities, at its first meeting of the new council after an election. (The current version was adopted by the Audit and Governance Committee on 06/06/2017).

Following a period of reviewing the financial governance arrangements of the Pension Fund, modifications were introduced to the Arrangements which are necessary for dealing with the 2020/21 accounts of the Gwynedd Pension Fund. It was highlighted that the Audit and Governance Committee had been receiving and approving the accounts of Gwynedd Council and the Gwynedd Pension Fund, as part of its role as "those charged with governance".

Having considered the latest guidance and regulations, and reviewing the governance arrangements, it appeared to be increasingly clear that the Pensions Committee, and not the Audit and Governance Committee, was the appropriate body to receive and approve the Gwynedd Pension Fund statements of accounts. Not only was the legal requirement for them to be included with the Council's accounts abolished, but also the national board which advised Local Government Pension Schemes also recommended that the Pensions Committee should consider the accounts.

Attention was drawn to the relevant regulations and the new draft operational arrangements which remain consistent with the requirements of the Local Government Measure and the Statutory Guidelines. It was reported that there was no inconsistency with Section 81 of the 2011 Measure, as the financial matters of the Pension Fund were not a part of Gwynedd Council's financial matters - the money of both entities were completely separate.

It was highlighted that an equivalent report had been submitted to the Audit and Governance Committee on 27 May 2021, where modifications to the operational arrangements were approved, in order to allow for the Pensions Committee to accept and approve the pension fund's statements of accounts, as well as the relevant report of the external auditor. It was reiterated at the Committee that arrangements and decisions relating to pensions were managed by the Pensions Committee, which in turn were scrutinised in detail by the Pension Board. As a result, it was considered that the modification was sensible.

Gratitude was expressed for the report.

In response to a question regarding the decision of the Audit and Governance Committee, it was confirmed that a decision had already been made (27/5/21).

**RESOLVED: To accept,**

- **The external auditor's work plan on the Gwynedd Pension Fund Accounts.**
- **The Gwynedd Pension Fund's Statement of Accounts, after they are certified by the Head of Finance, but subject to audit, and an opportunity to challenge their content**
- **The annual report of the financial auditor on the Gwynedd Pension Fund's Statement of Accounts**

- **The final post-audit version of the Gwynedd Pension Fund Statements of Accounts (by the end of November 2021), and an opportunity to challenge the contents of the relevant report of the external auditor, namely Audit Wales**

## **8. THE GWYNEDD PENSION FUND AUDIT PLAN FOR 2021**

Yvonne Thomas and Garmon Williams were welcomed to the meeting. The Audit Wales plan for 2021 was submitted, noting the work intended to be completed during the year, in line with the statutory responsibility they held as external auditors. Reference was made to the need to audit the pension fund's accounts, with the aim of identifying relevant misstatements, as well as the risks associated with the financial audit, such as the impact of Covid-19. Reference was made to the content of the performance auditing programme, offering an overview of the work to be done, the fees and the proposed timetable.

Gratitude was expressed for the report and a willingness to collaborate was expressed. Appreciation was expressed that the Audit Wales Team were all fluent Welsh speakers and this was to be welcomed.

In response to a question regarding whether Audit Wales had considered cyber security protocols, suggesting that security issues could arise for staff who worked from home as the information was 'possibly available', it was noted that further enquiries needed to be made to identify a thorough response and Audit Wales would respond directly to Councillor Churchman.

### **RESOLVED:**

#### **To accept the plan**

## **9. DRAFT ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2021**

Submitted, for information, the report of the Investment Manager to provide details of the financial activities of the Pension Fund during the year ending on 31 March 2021. It was highlighted that the accounts (draft) were subject to audit and the audit would be undertaken by Audit Wales.

It was reported that the accounts were following the statutory CIPFA format, with the guidance interpreting what was submitted in the accounts. Members were reminded that last year's accounts, had been signed with an emphasis of matter paragraph because of the uncertainty with property prices. It was highlighted that the 4 Property Managers had stated that there was no uncertainty this year. Attention was drawn to the Fund's Account, which noted a normal year for contributions and benefits, without any substantial change. Nevertheless, a substantial change was reported in management costs and reference was made to note 12a, which explained that an increase in Private Equity (Partners) performance fees was responsible for the change, with strong performance in three funds specifically. (A full explanation was received from the Managers when their fees were challenged).

Reference was made to the increase in the Investment Income (note 13) as a result of income from Equity investments as the Wales Pension Partnership started to pay income gained since establishing all of the Partnership's sub-funds that the fund had invested in them. Reference was also made to the figure of £565.5 million, namely the increase in the value of the assets on the market following a very prosperous year (note 14a).

In the context of the net asset statement, attention was drawn to the change in the investment assets (Note 14a), which had now reached £2.5 billion, with a substantial increase in the Wales Pension Partnership after a proportion of Fidelity and Insight transferred to fixed income funds during the year.

The Head of Finance Department took the opportunity to thank the Investment Team for their commitment to ensure that the Statement of Accounts (draft) was completed within the timetable. He noted that he had already certified the draft accounts and that it would be good practice to share the accounts with Members to give them an opportunity to question / make observations.

Gratitude was expressed for the report.

In response to a question as to whether financial outgoings will appear consistent within two years (i.e. fees reflecting the number of outgoings), it was noted that as there were a number of buying and selling combinations, it would be difficult to compare year v year, but consistency was expected in the long-term.

In response to a substantial net increase of 0.6 billion, it was asked whether the strategy could be reviewed to consider attractive packages / benefits for staff, e.g. early retirement. The Head of Finance noted that the Fund or Employer were not entitled to amend the benefits as they were set in line with salaries and the number of working years. It was reiterated, in April 2022, that work would commence on reviewing the next triennial valuation where possible, subject to the outcome, to amend the employers' contributions.

In response to a comment that the government was amending retirement age, with people paying in longer, was affecting the money being paid into the Fund, the Head of Finance noted that the fact was being considered when discussing the triennial valuation, but that the market was the most influential factor.

**RESOLVED to accept and note the Pension Fund's Statement of Accounts (subject to audit) for 2020/21.**

## **10. TREASURY MANAGEMENT**

Submitted - a report by the Investment Manager noting that an annual decision had been made to permit the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash-flow. It was highlighted that the report compared actual performance against the strategy for the 2020/21 financial year, and fulfilled the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government's Investment Guidance.

It was reported that during the 2020/21 financial year, the Council's borrowing activity had remained within the limits originally set, and it had received £442,000 of interest on investments, which was above the budgeted level of £400,000. It was reiterated that no organisation that the Council had invested money with them had defaulted.

In the context of the compliance report and indicators, it was reported that full compliance had taken place separately to the interest rate disclosure. It was highlighted that this disclosure showed a one-year revenue impact of a 1% increase in interest rates, highlighting the serious impact the pandemic has had on investment returns compared to what had been projected at the beginning of March 2020 when the restricted level was set - pre-Covid-19. It was reiterated that returns on pooled funds had recovered the interest decline.

Gratitude was expressed for the report.

**RESOLVED to accept the report for information.**

## 11. RESPONSIBLE INVESTMENT

The Head of Finance Department highlighted that electors in Anglesey, Conwy and Gwynedd had submitted questions to the Committee relating to responsible investment. Appreciation was expressed for receiving the questions beforehand, and the presence of the electors at the meeting was appreciated. Resolved to respond to the questions before discussing the report.

### 1. What evidence does the Gwynedd Pension Fund have that its engagement policy has genuinely changed the behaviour of the companies in which they are shareholders?

It was explained that, as a Fund, regular meetings were held with fund managers and progress reports were received on their engagement activities. It was noted that the fund's managers were very active and that the recent progress had been very satisfactory, with open discussions being held regarding the climate strategy of some funds. It was highlighted that the Wales Pension Partnership (WPP) had a Voting and Engagement Provider who assisted with the engagement process.

Reference was made to the following examples of considerate adaptations by companies within the Partnership's portfolios.

- a) Archer Daniels Midland (ADM). Shortcomings had been seen in ADM's policies, which contributed to continuous deforestation and a failure to protect native vegetation. It was noted that Robeco (Voting and Engagement Provider) had held discussions with ADM since 2020 and had introduced a proposal on behalf of the shareholders regarding their contribution towards deforestation and the clearing of native vegetation in South America. In March 2021, the proposal was withdrawn as the company had committed to:
  - set obligations and a deadline for the abolishment of deforestation by 2030
  - trace the soy supply chain in full by 2022
  - include native vegetation in their No Deforestation Policy
  - publish a protocol for engaging with suppliers
- b) Enel Spa. It was reported that Enel Spa (an international energy company from Italy), was active in the electricity production and distribution sectors. By leading on cooperative engagement under the Climate Action 100+ initiative, it was noted that Robeco had engaged on a number of occasions with the company's executive and non-executive managers, who had led on developing an ambitious strategy to develop renewable energy and digitalise distribution networks. As part of the efforts to strengthen the governance of companies on climate matters, Robeco succeeded to nominate the former Chief Executive Officer of Wind Power at DONG Energy to the Enel Board, along with a group of institutional investors. The next steps in their engagement discussions will seek to address the company's intention to achieve the target of net-zero by 2050, and set a long-term target for the Emissions of Scope 3
- c) It was reported that ING Bank (financial services provider in the Netherlands), placed a strong focus on digital services for standard banking services. It was noted, in 2018, that ING had announced a fine settlement of 775 million Euros due to their failure to discover money laundering matters between 2012 and 2016, and earlier in the year, the oversight board abolished its proposal to increase their executive pay levels following social pressures. It was highlighted that Robeco had held meetings with the Board's Chair to

assess the strengths and weaknesses of ING and had contacted the Investors in an attempt to review the risk management framework. It was suggested to appoint an independent director to the Board in 2019, and to continue to focus on further independent supervision.

In addition, it was noted that the Gwynedd Pension Fund was working with other Local Government Pension Funds via LAPFF, which promoted the highest standards of corporate governance to protect the long-term value of local government pension funds. It was reported that the Forum was engaging directly with hundreds of companies by building a healthy relationship and holding an open dialogue about corporate responsibility in the fields of stewardship, climate risk, social risk and governance risk. It was reiterated that LAPFF acknowledged that the 'change in the climate was a substantial and urgent investment risk', and LAPFF was considered to be a very useful forum to ensure an effective impact - recent examples of engaging with Shell, Mitsubishi UFJ Financial Group and Sainsbury.

A further comment was made that behaving as a 'critical friend' was a way of stimulating change and engagement was considered to be the best method of seeking changes.

**2. Has the Gwynedd Pension Fund looked in detail at investing a proportion of the fund in local projects?**

In response, the Cabinet Member for Finance, despite being a relatively new member of the Pensions Committee, noted that the matter of investing in local projects was one that arose regularly in meetings. It was reported that as an individual pension fund and nationally as WPP, that there was a common goal of investing locally, and nationally in Wales. Reference was made to possible opportunities being considered, along with an acceptance that more effective investment could be done in Wales.

- renewable and community projects across Wales
- other growth deal projects (city deals).

Further observations to the response:

- that local investment was close to the Members' hearts
- that a definition of the word 'local' was needed - need to differentiate between local and parochial. The world was smaller, links were better and so 'local' was difficult to define
- that joining the WPP fund had strengthened the hope of local investment

**3. Does the Gwynedd Pension Fund consider the risk of stranded assets, considering that a recent statement from the International Energy Agency noted the need to prevent every new fossil fuel development this year?**

In response, an explanation was given of the restrictions in an attempt to prevent global warming, along with how the economy is making the shift from energy sources such as coal, oil and gas, to using renewable energy sources with governments recommending that companies reduce carbon emissions. It was reiterated that Gwynedd Council was fully aware of these risks and with assistance from the Fund's advisers, was seeking to ensure that the asset managers, who chose the stocks, invested in companies that were diversifying their businesses towards renewable energy, so that the Fund is less open to risk. It was noted that the choice of companies that the Investment Managers invested in them was being monitored on an ongoing basis and challenged when needed by the Committee and the advisers.

In addition, the Members were reminded that the WPP had a Global Opportunities Fund, a de-carbonisation strategy that excluded coal, as it was considered as a stranded asset - coal was the least efficient energy source in terms of CO<sub>2</sub>, therefore, an attempt was made to avoid coal.

#### **4. Will the Gwynedd Pension Fund set a timetable for full diversification before the COP26 Climate Conference in November 2021**

It was reported that the main aim of the COP26 Conference was:

*'Ensuring global net zero by the middle of the century and keep within the reach of 1.5 degrees and asking countries to bring forward ambitious targets for reducing the 2030 emissions that correspond to reaching net zero by the middle of the century.'*

In order to achieve these extended targets, nations will need to:

- speed-up the period for abolishing coal
- reduce deforestation
- speed-up the switch to electric vehicles
- encourage investment in renewable energy.

It was explained, as trustees of pension funds, that it was essential to plan appropriately, and act and influence where possible, for the benefit of the environment. It was noted that the Gwynedd Pension Fund had a duty as trustee towards all of the fund's employers, their staff and pensioners, and therefore, it did not divert for non-financial reasons alone. This meant that decision to invest or not to invest in a specific company or asset type was based on the ability to generate sustainable long-term returns for the fund, or something that would be influenced by the method that a company would adopt towards climate change.

It was noted that the matter regarding owning fossil fuel companies was more complex in nature than direct disinvestment. Whilst dis-investing in fossil fuel reduced the attention on the pension fund, disinvestment in itself did not address global carbon problems. Some considered that fossil fuel would continue as an essential component of the energy mix, by supporting economic growth and future global income. For example, reference was made to their use in the production and installation of wind turbines - disposing of fossil fuel companies would likely dispose of the best energy companies that invested in the generation of renewable energy. These are the companies who support and set a direction and drive the energy transformation programme. It was noted that engagement was a more effective way of encouraging change, rather than complete disinvestment as it allowed asset owners, such as the Gwynedd Pension Fund and the WPP to undertake its executive ownership and maintain a long-term relationship on such matters.

The Fund will challenge the investment managers regularly on the steps they take on environmental, social and governance matters, and seek to divert from fossil fuel in general as part of the general strategy to reduce carbon emissions across all sectors. It was reiterated that the Fund was developing its longer term strategy for reducing carbon emissions that is consistent with the expected requirements of the Task Force for Climate-Related Disclosures (TCFD).

Reference was made to the steps already taken to reduce carbon emissions:

- Black Rock's Low Carbon Fund (12% of Gwynedd's Fund) - a further low carbon fund has been developed which screens fossil fuel before optimising low carbon, and therefore reduces carbon emissions further by 44% (Pensions Committee decision, 14/10/2020)
- Global Growth Fund (17% of Gwynedd's Fund) - efforts by investment managers within the fund to reduce the carbon footprint. Baillie Gifford have developed a fund that dis-invests from fossil fuel extractor companies and fossil fuel service providers (Pensions Committee decision, 21/01/2021) and Pzena have decided to sell stocks

in a company that contributed 35% (31/12/20) of carbon emissions in this specific fund.

- Global Opportunities Fund (17% of the Gwynedd Fund) - WPP has actioned a de-carbonisation overlay by Russell Investments, which reduces the carbon footprint by 25%. It will be possible to implement the same overlay at the next transfer to the WPP emerging markets fund (3% of the Gwynedd fund) in October 2021.
- Russell Investments (WPP Investment Management Solution Provider) - have stated that they intend to achieve a standard of net zero carbon emissions in their global investment portfolios by 2050.
- ESG GRESB Benchmark - a global benchmark for environmental, social and governance factors within the property field. Gwynedd Fund with a 10% allocation for investments in property with relevant property managers, UBS and Black Rock have retained position number 1 and 2 in their peer group for their 'ESG GRESB' score in 2020.
- Manager engagement - the Fund engages with managers, e.g. verifies their voting records, in an attempt to influence change in the companies in which the Fund invests, particularly WPP and Black Rock.

Although it was noted that Russell Investments (WPP Investment Management Solution Provider) have stated that they intend to achieve a standard of net zero carbon emissions in their global investment portfolios by 2050, the Gwynedd Fund has not committed to this statement and it is not convinced that such an ambitious and definitive target should be set.

It was highlighted that positive steps had been taken within the Fund regarding matters relating to climate and that they had considered the options seriously. It was accepted that more could be done, but positive steps have already been taken with an intention to continue as appropriate, by weighing things up carefully. It was reiterated that the Ffordd Gwynedd principles were being actioned, which encourages a change in mindset to seek the best result.

Gratitude was expressed for the questions and for their contribution to the Committee. Gratitude was expressed for the update to the statement - by planning appropriately, it will be possible to take timely steps when investing responsibly which will, consequently, influence environmental benefits.

**RESOLVED to approve the statement and for the Chair to sign the statement.**

## **12. WALES PENSION PARTNERSHIP UPDATE**

The Investment Manager submitted a report updating Members on the Partnership's work, the performance of the Fund, and ongoing developments since its establishment in 2017. By 31 March 2021, it was reported that 81% of the Gwynedd fund had been pooled with the Wales Pension Partnership - 54% through the main funds and 27% through passive investments.

It was reported that regular meetings via Teams allowed matters to be discussed in a timely manner, and this appeared to be effective, with matters progressing more quickly. It was reported that the easy transfers had been implemented, and work was now being undertaken on matters that seemed more challenging, such as Private Markets. It was emphasised that Hymans supported the work of combining assets in this category, with continuous business discussions arranged to discuss the appropriate structure and mechanisms for investment.

Attention was drawn to the discussion around the Member representative appointment process for the Joint Governance Committee. It was highlighted that the

recommendation put forward in a report to the Joint Committee (24 March 2021) was that each local Pension Board should nominate one scheme member representative who would meet the requirements of the job description. The appointment process would be undertaken by a sub-group who would recommend a nomination for approval by the Joint Governance Committee. The Head of Finance expressed that he would support Osian Richards (Chair of Gwynedd Pensions Board) to become a member of the Joint Committee.

It was noted that the appointment process would take up to six to twelve months, as Full Council approval was needed from each constituent authority.

Gratitude was expressed for the report. The Chair noted that establishing the Wales Pension Partnership had been very successful, with the returns element and good collaboration gaining benefits for the Fund. He expressed pride in being a part of the Fund.

**RESOLVED to accept the report for information.**

### 13. **MODIFICATIONS TO THE FUNDING STRATEGY STATEMENT**

Submitted - the report of the Investment Manager highlighting the need for the Committee to approve modifications to the Funding Strategy Statement following changes to the LGPS Regulations 2013 and an update on the Goodwin court case. The recommendation came from the Fund's actuary, namely Hymans Robertson, which had suggested the changes. It was highlighted that changes had been made in three parts of the statement

- **Reviewing the contribution** - the modification allowed the Fund to re-calculate contributions outside the formal valuation under the following circumstances: if changes had been made to the employers' liabilities, if changes had been made to the employers' guarantee; or at the request of the employer
- **Exit arrangements** - the modifications allowed for more flexibility when an employer wanted to leave the fund. If an employer is in arrears, the options have been formalised, e.g. spread the payment over a number of years or commit to a Deferred Debt Agreement.
- **Goodwin Court Case** - where members or survivors were subject to discrimination because of their sexual orientation. It is expected for the impact of the Goodwin Case to be very small on the Fund's liabilities and an administrative matter to a great degree. Nevertheless, note the modification in the strategy for clarity.

Gratitude was expressed for the report and for Hymans Robertson's guidance in a very technical field. It was accepted that the response was also technical and possibly beyond the comprehension of some of the Members, but with an expectation that the officers acted correctly.

It was also noted that the use of colours in the report was a very effective way of highlighting the changes.

**RESOLVED**

- **To approve the modifications to the Funding Strategy Statement following changes to the LGPS Regulations 2013 and for them to be updated following the Goodwin Court Case**
- **To adopt the Modified Funding Strategy Statement**

The meeting commenced at 14:00 and concluded at 15:35