
PENSIONS COMMITTEE 17-03-22

Present:

Councillors: Stephen Churchman, John Brynmor Hughes, Peredur Jenkins (Chair), John Pughe Roberts and Ioan Thomas.

Officers:

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

Others invited:

Osian Richards (Pension Board Member – observer)

1. APOLOGIES

Apologies were received from Councillors Aled Wyn Jones, Goronwy Edwards (Conwy County Borough Council) and Robin Williams (Isle of Anglesey Council)

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

Osian Richards (Members Representative, Gwynedd Pension Fund Pension Board), was congratulated on his appointment as member representative on the Wales Pension Partnership's Joint Governance Committee. This arrangement would be formalised at the next Joint Governance Committee meeting on 24 March 2022.

4. MINUTES

The Chair accepted the minutes of the meeting held on 17 January 2022 as a true record.

5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2022/23

A report was submitted by the Investment Manager noting, in accordance with Welsh Government's Statutory Guidance on Local Government Investments, that the Council was required to prepare an Annual Investment Strategy as part of its treasury management role. As good practice, it was considered that the Gwynedd Pension Fund (the "Fund"), should adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2022/2023, as revised for the purpose of the Pension Fund. Gwynedd Council's TMSS for 2022/23 was approved by the full Council on 3 March 2022.

It was explained that currently, all the Fund's surplus cash was pooled with the cash balances of Gwynedd Council and invested with counterparties in accordance with Gwynedd Council's Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council paid interest to the Pension Fund based on the Fund's

daily balances over the year. It was noted that in line with legal advice, it was beneficial to approve this practice on an annual basis, and to seek returns within secure boundaries and reduce risk by pooling money with the Council's funds.

It was highlighted that the CIPFA code of practice and Welsh Government guidance made it mandatory for the Council to invest its money prudently and consider security and liquidity before seeking the highest rates of return or the highest yield. It was reiterated that every effort was being made to strike a balance with these factors and that voluntary measures to highlight sensitivity to the credit protection and liquidity risks had been adopted - an update on the management indicators would be submitted to the Committee every six months. Attention was drawn to those counter-parties that had been approved for investment (local government, local authorisation, banks, money market funds and pooled funds), as well as the time-scales and investment restrictions.

The main advantages of the exercise was attracting higher interest, minimising bank costs and avoiding duplication of work within the Council. It was confirmed that keeping the Fund safe and protecting the money was the priority and not to take risks.

It was proposed and seconded to accept the recommendations

RESOLVED:

- **To accept and note the information**
- **To adopt the Treasury Management Strategy Statement for 2022/23 as adapted for the purpose of the Pension Fund.**
- **To request that the Council (although not a separate body) to allow the surplus cash balances of the Pension Fund to continue to be pooled with the Council's general cash flow from 1 April 2022 onwards.**

6. RESPONSIBLE INVESTMENT POLICY

The Investment Manager submitted a report, requesting the Committee to approve a Responsible Investment Policy for the Gwynedd Pension Fund. It was reported that Responsible Investment had developed into an important and popular discussion topic over the past year and that the Gwynedd Pension Fund had taken positive steps in the field, including the release of responsible investment statements in April and July 2021, which had now been formalised within the policy.

It was noted that the policy outlined that the aim of the Fund was to secure strong investment gains over the long-term and protect the interests of stakeholders, whilst acknowledging that governance, environmental and social matters could represent a substantial financial risk to stakeholders and influence the profits and reputation of the Fund. It was reiterated that the policy also included information about legal guidance, investment beliefs, engagement and disclosure and reporting and described those principles and procedures that the fund followed in the field of responsible investment.

Reference was made to the Fund's net zero commitment and highlighted the consideration of committing to a net target by 2050, but to continuously assess the possibility of reaching the aim 5, 10, or 15 years earlier. It was highlighted that there was no wish to set a target without a plan on how to achieve it, but it was noted that the target of 2050 coincided with the target of Russell Investments, the Wales Pension Partnership's Investment Management Solutions Provider. Attention was drawn to the framework developed to support the ambition that encompassed opportunities, engagement, monitoring and metrics.

The Fund's Director reiterated that although no target had been set previously that there was a commitment to be net zero and reasonable steps taken to seek to achieve this had been actioned, but that there was now an expectation to set a target and formalise the position.

The policy had been submitted to the Pension Board for observations on 7 March 2022. It was noted that their proposals had been incorporated in the policy.

Thanks were expressed for the report.

Members were given an opportunity to ask questions.

In response to a question regarding the implications of the Sanctions Measure from the Westminster Government following the Russian attacks in Ukraine, it appeared that the Westminster Government wished to restrict funds from acting politically. Although some decisions had been challenged in the past, it appeared that the Government had an intention to set a policy; however, it was considered that this could vary, subject to the government that was in power at the time. He highlighted that the 'fiduciary duty' currently managed the restrictions and in accordance with the Pension Board's suggestion, a reference to this had been included in the Policy.

In the context of Russia and Ukraine, it was highlighted that the Committee held the same view, the powers and confidence to influence the portfolio by sharing concern about the situation with Scheme members, releasing a statement and by noting that there was no risk of substantial financial harm to the Fund from Russian investments (less than 1%). In relation to other issues, such as weapons, there was no common view held amongst the majority of the Fund's members, and identifying the size of investments was challenging. It was accepted that this was difficult, and there was a need to be comfortable with the situation before proceeding, since the fiduciary duty applied here.

In response to comments about setting a net zero target and of the possibility of reaching the target by 2050, the Chair highlighted that Welsh Government had made a statement that the public sector in Wales should be carbon neutral by 2030. At a meeting of the Gwynedd Council Cabinet on 3 March 2022, the Climate and Nature Emergency Plan 2022-2030 was approved, adopted and implemented. This plan would outline the actions to be taken by the Council to reach the aim of being a net zero carbon Council by 2030. In order to reconcile this ambition with the Responsible Investment Policy, it was suggested that the timetable be adapted so that there is an ambition to reach the aim of being net zero by 2030.

The Investment Manager highlighted that the Wales Pension Partnership had commissioned Robeco to engage with the fund's asset managers in relation to voting activity on climate-related issues, and to engage with the companies in which the WPP invested, to influence and improve their activities and behaviours on climate-related matters. It was reiterated that further measures were to be adopted, as well as 'TCFD' (Taskforce on Climate-related Financial Disclosures) requirements. Reference was made to the appendix to the policy - 'Monitoring Gwynedd Pension Fund Asset Managers', which was a live document that would keep record of the developments in the responsible investment field that all asset managers had delivered.

It was proposed and seconded to approve the Policy, subject to amending the timetable so that the ambition was to reach the aim of being net zero by 2030, if possible.

RESOLVED

- **To accept and note the information**

- **To approve the Responsible Investment Policy subject to amending a clause under the heading 'Reduce the Carbon Emissions of the Fund and the Future Objectives'**

"...the Committee has committed to set an aim for the Fund to be net zero by 2050, supported by a commitment to assess the feasibility of the Fund reaching net zero 5, 10 or 15 years earlier..."

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The Chair noted that questions from the public had been submitted to the Committee and responses were provided to those questions from the Fund's Director:

1. Bearing in mind the volatile nature of fossil fuel investments in light of the Russian war, the recent IPCC report, and the views of experts that engaging with shareholders leads to taking rather than action, will the committee now commit to divest from all assets relating to fossil fuels in the shortest possible period of time? I am calling for divestment within 2 years.

It was noted that an ambitious Responsible Investment Policy had now been adopted and that there was substantial evidence of the steps that the Fund has already taken to act. As the Fund's assets are invested globally, and across a number of sectors, reducing the Fund's carbon emissions will be more challenging than it would be for a single organisation. Therefore, it will not be possible to commit to respond sooner due to the fiduciary duty.

2. Considering the substantial amount of evidence that shows that engagement is not an effective tool to ensure that companies withdraw from fossil fuel, particularly within the required time-scales, will the Gwynedd Pension Fund instead focus its efforts on divestment?

We underlined by referring to examples in the appendix to the Responsible Investment Policy that monitors the progress of Gwynedd Pension Fund assets that divestment is already being implemented, where possible, with due attention given to the fiduciary duty and other legal conditions.

The views of the Committee and officers that engagement is an essential tool were confirmed, and it was elaborated that the Wales Pension Partnership had commissioned Robeco to engage with managers and the companies with whom we invest to influence and improve their activities and conduct on climate-related matters, as well as attempt to influence those companies and encourage them to move from fossil fuels to renewable energy.

3. Could you provide an update on: (a) how much money has the Gwynedd Pension Fund currently invested in fossil fuel related assets and (b) the development of the fund's responsible investment policy?

(a) We confirmed that the specific 'TCFD' reporting requirements for LGPS funds will be introduced over the coming year, and in the meantime, there is no acknowledged method in place for regular reporting.

(b) It was elaborated that an ambitious Responsible Investment Policy had now been adopted.

4. Does the Committee acknowledge that the war in Ukraine, the uncertainty regarding the supplies of oil and gas and the new campaign to develop renewable energy is highlighting the uncertain nature of fossil fuel investments?

It has been noted that it is not the war alone that has highlighted this uncertainty; the Committee has already considered the uncertain nature of fossil fuel investments, and that relevant steps have already been taken, as outlined in the Responsible Investment Policy and the appendix that monitors progress.

5. Would you consider a strategy of listing the most polluting companies from your investment portfolio and joining the NZAOA (United Nations Assembly - Net Zero Asset Owner Alliance)?

That the Gwynedd Fund was receiving advice and acting in accordance with that advice. It was noted that there was no intention to join the NZAOA at present, but that there was a willingness to look into their features and share information with the Wales Pension Partnership, should that be beneficial.

The public's interest in the subject was appreciated and they were encouraged to submit their questions earlier so that officers and members had an opportunity to prepare full responses.

7. SKILLS AND KNOWLEDGE 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 part of preparing the new policy, that a draft copy of the policy had been shared with Hymans Robertson in order to receive feedback.

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.

Thanks were expressed for the report.

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

- That the policy was to be welcomed.
- That it was essential to ensure that the correct resources were available to Members to do the work.
- The professional structure to the training was welcomed.

In response to a question regarding the need for members to complete a fundamentals course before they could vote in committees, and whether this statement was guidance or a rule, it was noted that it had to be ensured that members had sufficient knowledge to make meaningful decisions, although they had a mandate to represent the Council on the Committee. The expectation to learn the procedure was highlighted, but it was noted that the training could not be forced on anyone.

DECISION

To approve the Knowledge and Skills Policy and the 2022/23 Training Plan

8. WALES PENSION PARTNERSHIP UPDATE

A report was submitted by the Investment Manager, providing an update on the activities of the Wales Pension Partnership and she reported that the collaboration continued to go from strength to strength and by December 2021, 83% of Gwynedd's Fund had been pooled with the WPP - 56% through the main funds and 27% through passive investments.

Attention was drawn to the performance of the funds which had been volatile recently due to very challenging circumstances, and it was noted that the WPP would monitor their performance in detail. It was reported that the transfer of emerging markets from Fidelity to the WPP in October 2021 had been very successful, with 6 managers within the fund, including 5% that had been earmarked for Bin Yan, the China expert. It was reiterated that a 'de-carbonisation overlay' had been placed on this fund, which reduced the carbon footprint by 25%.

It was reported that the next steps in the Partnership's work was to seek asset pooling options in the private markets category. It was noted that a group had been established to lead on the work that would be supported by Hymans Robertson. It was noted that private credit and infrastructure was the initial focus of the group, with a recent purchasing process taking place, which will recommend suitable managers for the Joint Governance Committee to appoint. The group will also seek to purchase a private equity manager.

In the context of a member representative on the Joint Governance Committee, it was reported that the appointment process had taken place, with a recommendation made, as noted previously, that Osian Richards, a Member of the Gwynedd Pension Fund Pension Board, was appointed as the representative.

It was confirmed on 10 March 2022 that the Wales Pension Partnership had reached the expected reporting standard in 2021 and consequently, it was listed as a UK Stewardship Code signatory. It was reiterated that this was a significant feat and reflected the Partnership's strong governance and stewardship.

They were thanked for the information.

RESOLVED

To accept and note the information

The Chair, Councillor Peredur Jenkins, took the opportunity to express his sincerest thanks to all relevant staff for their support and to his fellow members on the Committee and the Pension Board for their positive collaboration and discussions. Everyone was wished well in the future.

Councillor Peredur Jenkins was thanked for his work and for his support to the Pensions Committee over the past 20 years. He was wished a happy retirement.

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