PENSION BOARD 08-07-24

Present:

Anthony Deakin, Eifion Jones and Osian Richards (Member Representatives)

Ned Michael, Sioned Parry and Cllr Beca Roberts (Employer Representative)

Officers: Dewi Morgan (Head of Finance), Ffion Madog Evans (Assistant Head of Finance - Accountancy and Pensions), Delyth Jones Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer)

OTHERS INVITED

Cllr Medwyn Hughes (Chair of the Pensions Committee) - observer

1. ELECTION OF CHAIR

RESOLVED to elect Sioned Parry as Chair of the Board for 2024/25.

Eifion Jones was thanked for his work and support as Chair of the Board over the past two years. Cllr R. Medwyn Hughes was welcomed to the meeting and he was congratulated on his appointment as Chair of the Pensions Committee.

2. ELECTION OF VICE-CHAIR

RESOLVED to elect Osian Richards as Vice-chair of the Board for 2024/25.

3. APOLOGIES

None to note

4. DECLARATION OF PERSONAL INTEREST

None to note

5. URGENT ITEMS

Following the overwhelming success of the Labour Party in the General Election held on 4 July 2024, attention was drawn to the opening statement of Rachel Reeves (Chancellor of the Exchequer). She had emphasised the need for 'growth' in the economy, expressing her vow to address the pensions system in order to trigger investments in local businesses and giving more profit to pension funds.

A need to add the statement to the risk register since the Wales Pension Partnership and Gwynedd Fund had the right to make a decision on the Fund's use.

6. MINUTES

The Chair signed the minutes of the previous meeting of this committee held on 23 April 2024 as a true record.

7. PENSIONS COMMITTEE MINUTES

Submitted for information, the minutes of the Pensions Committee held on 17 June 2024. Anthony Deakin had attended the meeting on behalf of the Board.

8. DRAFT ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2024

Submitted, for information, a report from the Investment Manager providing details of the financial activity of the Pension Fund during the year ending 31 March 2024.

It was reported that the accounts followed the statutory CIPFA format, with the guidance interpreting what was to be submitted in the accounts. It was noted that the year had been busy for the fund as it actioned the strategic assets allocation and invested more broadly with the Wales Pension Partnership (WPP).

Attention was drawn to the Fund Account, noting that there were some variations as the contributions and benefits increased after employees received salary increases and also as the pension increased with the CPI. It was reiterated that there had been an increase in the management costs as the value of the Fund's assets increased and the introduction of different types of investments to the portfolio, e.g. private credit.

It was highlighted that the fund's investment income had increased substantially and that the equity investments had performed strongly and had therefore generated a substantial income. It was noted, as a part of the new strategic asset allocation, that more investment had been made in the fixed income funds, and in one new fixed income fund, i.e. the Global Credit Fund. It was reported that these investments had generated a substantial interest income and that these collective investments were being used to reduce the fund's risks, compared with the equity investments. It was explained that the income, more or less, followed the patterns of interest rates, therefore it was reasonable that the income level had increased substantially.

In addition, it was noted that there had been an increase of approximately £300 million in the market value of the Fund following the recovery of equity markets after the impacts of the Ukraine War and high inflation. Reference was also made to the statutory notes in the report which provided details behind the figures, as well as further details regarding the activities of the Fund and WPP.

The members thanked the officer for the report.

In response to a question regarding the number of employers and which employer had left by 31/3/24 (numbers on 31/3/24 were one fewer than on 31/3/23), it was noted that Cynnal, a company under joint-ownership between Gwynedd and Anglesey, had been wound up with the service now being included in the technical services of the individual Counties. After the company had been wound up, credit had been seen in the pension, but in line with policy, there was no need to pay out - it was not considered that this posed a risk since the pensions of the staff, who were employed by Cyngor Gwynedd and Cyngor Môn, would remain within the fund.

In response to a question regarding closed funds (a total of £12,854,000 had been paid out), and if the payment applied to the period before the establishment of Cyngor Gwynedd in 1996 after the reorganisation of county councils in line with the Local Government (Wales) Act 1994, it was confirmed that this was the closed fund.

In response to a comment on the need to include cyber risk / a reference to cyber risk in the report, it was noted that this was a document regarding the statutory accounts and that information about the cyber risk would be included in the annual report.

In response to a question regarding the development of the North Wales Corporate Joint Committee (CJC), and the impact of this on the Gwynedd Pension Fund, it was noted that since no staff currently worked directly for the CJC, that the staff associated with this work would be acknowledged as Cyngor Gwynedd staff but as a separate entity and as members of the Gwynedd Pension Fund, and not the Clwyd Fund. It was reiterated, however, that a lot of legal work needed to be done before the official launch of the CJC on 1/11/24.

RESOLVED to accept the information.

9. THE PENSION FUND'S INVESTMENT PERFORMANCE 2023/24

A report was submitted by the Investment Manager, explaining the performance of the Pension Fund's investments for the 2023/24 financial year. It was reported that the investment managers were being monitored every quarter by the Investment Panel with the advisers giving a presentation on the performance to the Members and invitations were sent to investment managers to attend in turn to explain the performance further.

It was highlighted that the value of the fund on 31 March (over the last 10 years) had increased to £3.1 billion, which followed a pattern of a gradual increase over time. It was noted that the fund's performance had been strong, with returns of 11.2% over the year, and although this was lower than the benchmark, it was higher than the average for the British Local Government Pension Fund average, at 9.2%. It was reiterated that the benchmark set was challenging, as well as market conditions, particularly within active equities.

When discussing the performance of Equity Investment Managers, reference was made to two BlackRock funds which had performed well over the quarter and the year and in line with the benchmark. It was noted that the active managers, who were trying to exceed the benchmark, had underperformed since there were underweights for the US and exposure to value-type equities disrupted the general returns of the Fund. It was reiterated that the funds' performance could be cyclical, and therefore it was reasonable and expected for under-performance to occur; however, the Global Growth Fund, which included the Baillie Gifford, Pzena and Veritas investment managers, had now been under-performing for some time and WPP were looking at the structure of this fund to see what could change.

When discussing the performance of Fixed Income Managers, it was explained that these funds had experienced challenging periods with market instability due to the Russia and Ukraine War, and a time when there was high inflation and interest rates. Nevertheless, it was reported that this market had now stabilised and the funds had been performing close to the benchmark over the year.

When discussing Property Managers, it was highlighted that the performance of the sector was generally poor and behind that benchmark due to challenges in the property markets where it was seen that these funds had invested, e.g. in offices and in the high street. It was explained that there would be considerable changes to the property portfolio over the next years, with the Lothbury Property Fund ending and the money to be returned. It was noted that this would mean that the WPP property funds would have potential options to invest Lothbury money in three different funds - UK property, International property and Impact property. It was reiterated that discussions were being held on the best method of reinvesting this money.

In the context of Partners Group (which was responsible for managing private equity investments and the Fund's infrastructure), it was noted that it was difficult to measure their performance in a specific time because of the time lag, and therefore, the actual performance was not being measured until the fund would be closed down. Despite that, it was reiterated that the Partners had been performing well and that Hymans had not caused concern regarding their figures. It was reiterated, as a part of the WPP, that an investment had been made in a number of different funds in this field, therefore, there would be more funds to report upon next year.

It was noted that the Fund's performance had been regularly assessed, even though long-term investment was the objective. It was highlighted that the Fund's performance over the last year had been lower than the benchmark due to the performance of some of the equity funds, fixed income and property, and although the performance was 3 years behind the benchmark, the Fund was placed 18th out of approximately 100 of all British funds, which showed that the benchmark set was challenging.

Reference was also made to the clarity regarding the allocation of strategic assets where it was reported that the Gwynedd Fund had set a strategy to reduce risk to the fund, i.e. reduce the levels of equity and investment in infrastructure and private credit. It was reiterated that the work would take place over the next 12-18 months.

Members gave thanks for the report - the report was good and reflected a satisfactory situation.

In response to a question about the meaning of Impact Property, it was noted that this referred to property that would make a difference, such as Social Housing or local investments. It was reiterated that Gwynedd wished to invest more in this type of property, but a little more information was needed before making a firm commitment.

In response to a question regarding whether there was any type of suggestion of the value of the long-term investments of Partners Group, it was noted that Hymans was submitting quarterly reports on Partners' performance and that the performance was very good and the returns were acceptable. Nevertheless, there was no intention to reinvest in Partners Group as they were not a part of the WPP investments.

Tony Deakin noted that he had recently attended the Local Government Pension Scheme (LGPS) Strategic Investment Forum with many discussion topics relating to global equity (potential risk impact on the market following the result of the US presidential election, introduction of new technology in the health care industry, investment in carbon investments as well as the suggestion that there was going to be a likely increase in expenditure in the defence field). The need to be aware of these matters were highlighted, and that further information about the issues would benefit the Board.

In response to a further comment regarding being open to the impact of the risk of the China market, considering the perspective of the US Republican Party and the investments with China, it was noted, via the WPP, that quite a sum had been invested in the global equity fund but that the sum had been split over a number of countries. It was reiterated that experts were monitoring the situation.

RESOLVED to accept and note the information

The meeting commenced at 1.00pm and concluded at 1.35pm.