Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, THURSDAY, 17TH MARCH, 2022

Location

Virtual Meeting

Contact Point

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(DISTRIBUTED 10/03/22)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (4)

Councillors

Aled Wyn Jones
Simon Glyn
Peredur Jenkins
Ioan Thomas

Independent (2)

Councillors

John Brynmor Hughes
John Pughe Roberts

Individual Member (1)

Councillor
Stephen W. Churchman

Co-opted Members

Councillor Robin Wyn Williams	Isle of Anglesey County Council
Councillor Goronwy Owen Edwards	Conwy County Borough Council

Ex-officio Members

Chair and Vice-Chair of the Council

A G E N D A

1. APOLOGIES

To receive any apologies for absence

2. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

3. URGENT ITEMS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

4. MINUTES 4 - 7

The Chairman shall propose that the minutes of the meeting of this committee held on 17 January 2022 to be signed as a true record

5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2022/23 8 - 25

To consider the report, adopt the strategy and confirm pooling arrangements

6. RESPONSIBLE INVESTMENT POLICY 26 - 40

To consider the report and approve the Responsible Investing policy

7. KNOWLEDGE AND SKILLS POLICY AND 2022/23 TRAINING PLAN 41 - 51

To consider the report and approve the Knowledge and Skills policy and 2022/23 Training plan.

8. WALES PENSION PARTNERSHIP UPDATE 52 - 55

To consider the report

PENSIONS COMMITTEE 17-01-22

Present:

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

Officers:

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

Others invited:

H Eifion Jones (observing – Member of Pensions Board)

1. APOLOGIES

Apologies were received from Councillors Aled Wyn Jones and Simon Glyn.

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

It was highlighted that questions had been received from members of the public who were present at the meeting, that did not reach the urgent item threshold of the Committee, but aspects of responsible investment would be discussed at the next meeting of the Committee held on 17 March 2022.

4. MINUTES

The Chair accepted the minutes of the meeting held on 17 November 2021 as a true record.

5. STAFFING OF PENSIONS ADMINISTRATION UNIT

Submitted – the report of the Pensions Manager seeking the Pensions Committee's approval for additional resources that would enable the Pensions Administration Unit to respond to increasing work pressures and cope effectively with the level of work now required. To improve the efficiency of the Pensions Administration Unit, adjustments were proposed to the existing structure and it was highlighted that it was the Pensions Committee's responsibility to determine the budget to ensure sufficient resources to implement this.

It was explained there had been an increase in the need for a deeper understanding of the pension fund's complex regulations, and the Pension Assistant posts had been evaluated and the grade increased from GS3 (£19,312 - £19,698 salary range) to grade GS4 (£20,092 - £21,748). When added to the employer overheads this would be an increase of £2,799 for each of the 6 posts (at the top of the scale) and the cost of funding the increase would be £16,794 per year.

It was noted that Gwynedd Council and Conwy County Borough Council had submitted an attractive option for Salary Sacrifice Voluntary Contributions (AVCs) and consequently a major increase in the use of this scheme was anticipated, as the Councils promoted the scheme. To address the increase in work administrating the scheme, it was proposed to employ a new S2 grade Pensions Officer (£24,982 - £27, 041). When added to the employer overheads, at the top of the scale, the cost of funding the new post would be £35,704. It was reiterated that the Fund's major employers were realising significant savings by reducing national insurance contributions with the AVCs Scheme - savings that were much greater than the cost of funding the Pensions Officer post. Therefore, in principle, given the employers' budgets and the budget of the Pensions Fund, there would be no increase in the net budget.

Additionally, in response to the Court of Appeal's ruling in the 'McCloud' case against the UK Government, it was reported that the Government had now confirmed that there would be changes to all major public sector schemes, including the Local Government Pension Scheme, to eliminate age discrimination. In response to implementing the changes (known as the McCloud Project), there was a need to collect information on hours worked, and details of service breaks for all eligible employees covering the period 1 April 2014 to 31 March 2022. In addition to updating the records, there was a need to recalculate the death benefits, retirement benefits, and deferred benefits of the members who had left during the past 8 years. This would involve revisiting facts and recalculating thousands of member records. Although the McCloud project would involve significant work for the Unit, it was likely that only a very small number of members would see the value of their benefits increase at the end of the project.

It was reported that a number of other pension funds of a similar size to us had commissioned external companies to undertake this work, but this was an expensive option as opposed to keeping the work in-house. Several members agreed that the Fund would minimise costs by employing three additional temporary Pensions Assistants for a two-year period (with the possibility of extending the contract should the work continue beyond two years) to carry out the McCloud Project work.

The Fund Director reiterated that the recommendations had been challenged by the Finance Department and that they were reasonable and unavoidable recommendations. He also noted that although the Fund's major employers would realise significant savings by reducing national insurance contributions with the AVCs scheme, these would be savings for the employers and not savings for the Fund.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were noted:

- That staff efficiency was crucial to the scheme.
- That the option of keeping the work in-house was to be welcomed.
- That the £85k (McCloud Project) was a one-off amount - we had to accept there were costs to ensure that the work could be done correctly.
- It was not possible to avoid the additional work - the recommendations were a means to move on in a realistic manner.
- The recommendations were cost effective and offered opportunities to staff.

A member of the Pensions Board reiterated that the Fund's administration was a priority area that required expertise and professionalism. He was confident that the Pensions Board would support the recommendations.

RESOLVED:

- **To accept and note the information**
- **To approve the £137,929 increase in expenditure on Pension Unit staff by 2022/23:**
  - **Create 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) (total annual costs £121,135)

  - **Increase the salary of six Pensions Assistants from GS3 to GS4 (total annual costs £16,794)**

6. APPROVE THE 2022/23 BUDGET

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 2021-2022 financial year.

It was reported that the budget was now approved on an annual basis by the Pensions Committee and it was explained that the 2022/23 budget included the adjustments to the Pensions Administration Unit staffing structure approved in item 5 above.

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. It was reiterated that the officers reviewed the budget every month with support from Hymans, along with monitoring Wales Pension Partnership expenditure continuously to ensure value for money.

The members expressed their thanks for the report that was self-explanatory and concise.

RESOLVED

- **To accept and note the information.**
- **To approve the 2022/23 financial year budget for the Pensions Administration and Investment sections.**

7. 2022 VALUATION: ACTUARIAL ASSUMPTIONS

A report was submitted by the Fund Director asking the Committee to approve actuarial assumptions suggested by Hymans, the Fund's Actuary, to be used in the 2022 valuation. It was explained that the underlying actuarial assumptions were a key element of the funding strategy and they should seek to reflect the Fund's future expectations along with the risk level appetite. As more information became available, the environment in which the Fund operated evolved and the balance between prudence and affordability shifted in light of external factors. Therefore, it was 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 and to set a contribution rate for every employer that would be paid (in this case) from 1 April 2023 to 31 March 2026, at which point rates would be re-assessed at the 2025 valuation; and check the current funding position.

To determine the required level of future employer contributions we were required to carry out a benefits projection and an assets projection. The contribution rates were then set such that, at the end of an agreed period there were enough assets to meet the future benefit payments.

All the financial and demographic assumptions were discussed in turn, explaining the reasoning behind the proposal for 2022 along with the reasons for any change. It was reiterated that the meeting held on 17 January 2022 with the Members, the officers and the Actuary detailing the assumptions had been very beneficial.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were noted:

- That the few adjustments to the assumptions since the 2019 valuation had all been reasonable.
- That the field was a very technical and specialist one and therefore they needed to place their trust in the experts' work and advice.
- Needed to be cautious and wise.

RESOLVED

- **To accept and note the information.**
- **To approve the actuarial assumptions proposed by Hymans Robertson, Fund Actuary, to be used in the 2022 Valuation**

  (Subject to a possible review in October 2022, these will be formalised in an updated version of the Funding Strategy Statement in 2023)

The meeting commenced at 14:00 and ended at 14:50.

MEETING:	**PENSIONS COMMITTEE**
DATE:	**17 MARCH 2022**
TITLE:	**TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2022/23**
PURPOSE:	**To ask the Pensions Committee to adopt the strategy and confirm pooling arrangements**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

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1. THE PENSION FUND'S INVESTMENT STRATEGY

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it is considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2022/23, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Gwynedd Council's TMSS for 2022/23 was approved by the full Council on 3rd March 2022.

2. THE PENSION FUND'S CASHFLOW

The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in significantly exceeds the pensions, transfers out and costs paid out. Once there is sufficient surplus cash, it is transferred to one or more of the Fund's investment managers. Normally up to around £10 million is held back for cashflow purposes, in particular in respect of pension payments and funding calls from the private equity funds. However in the past, due to known commitments, there have been times when the surplus cash held in the Fund's bank accounts with Gwynedd Council has been over £25 million.

3. POOLING IN ORDER TO MAXIMISE RETURNS

Currently all the Fund's surplus cash is 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 pays interest over to the Pension Fund based on the Fund's daily balances over the year. This can continue if the Pensions Committee requests that the Pension Fund's surplus cash balances are pooled with the Council's cash balances. It is apparent that by pooling, the Fund can take advantage of economies of scale, and as a result can attract better interest rates, reduce bank costs and avoid the duplication of work within the Council. The report approved by the full Council on 3rd March 2022 included agreement to continue the pooling arrangement with the Pension Fund following any request from the Pensions Committee.

4. RECOMMENDATIONS

4.1 The Pensions Committee is asked to adopt the attached Treasury Management Strategy Statement for 2022/23, as amended for the Gwynedd Pension Fund (Appendix A).

4.2 The Pensions Committee is also asked to make a request to the Council (even though it is not a separate body) to allow the Pension Fund's surplus cash balances to be pooled with the Council's general cashflow from 1 April 2022 onwards.

APPENDIX A

Treasury Management Strategy Statement 2022/23

1. Introduction

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Council to approve an investment strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

1.3 In accordance with the WG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, change in the Council's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

2-5 Not relevant for the Pension Fund

6. Treasury Investment Strategy

6.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £62.9 and £147.9 million, and similar levels are expected to be maintained in the forthcoming year.

This includes the cash balances of Gwynedd Pension Fund which are pooled with the Council's funds for investment purposes. The Pension Fund requests this annually as the returns received are improved and the risks reduced by combining the cash with the Council's funds.

Loans to organisations providing local public services and purchases of investment property are not normally considered to be treasury investments, and therefore these are covered separately in **Appendix 3**.

6.2 Objectives

Both the CIPFA Code and the WG Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3 Negative interest rates

The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 Strategy

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will aim to continue to hold more secure and/or higher yielding asset classes during 2022/23. This is especially the case for the estimated £10m that is available for longer-term investment. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, UK government deposits, local authorities and money market funds. This represents a continuation of the strategy adopted in 2015/16.

6.5 Business models

Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.6 Approved counterparties

The Council may invest its surplus funds with any of the counterparty in table 3 below subject to the cash limits (by counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£10m

This table must be read in conjunction with the notes below.

6.7 Credit rating

Treasury investments in the sectors marked with a * will only be made with entities whose lowest published long- term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

6.8 Government

Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

6.9 Secured investments

Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

6.10 Banks and Building Societies (unsecured)

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

6.11 Registered providers (unsecured)

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

6.12 Money Market Funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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6.13 Strategic Pooled funds

Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

6.14 Real Estate Investment Trusts

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

6.15 Other investments

This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

6.16 Operational bank accounts

The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £900,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

6.17 Risk assessment and credit ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.18 Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall, but will protect the principal sum invested.

6.19 Investment limits

The Council's revenue reserves available to cover investment losses are forecast to be £100 million on 31st March 2022. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £500,000 in operational bank accounts count against the relevant investment limits.

Table 4: Additional limits

	Cash limit
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£10m per country

6.20 Liquidity management

The Council uses prudent cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed. The forecast is compiled on the basis that short-term borrowing is used to cover its financial commitments if required. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7. Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

7.1 Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit score	6.0

7.2 Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£10m

7.3 Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£643,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£643,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

7.4 Not relevant to the Pension Fund

7.5 Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£20m	£20m	£20m

8. Related Matters

8.1 The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

8.2 Financial Derivatives

In the absence of any explicit legal power to do so, the Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.3 External Funds

Included within the Council balances are the balances for Gwynedd Pension Fund, Gwe, Welsh Church Fund and North Wales Economic Ambition Board. The interest income is allocated to each institution based on daily balances.

8.4 Markets in Financial Instruments Directive

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Head of Finance believes this to be the most appropriate status.

9. Welsh Government Guidance

Further matter required by the Welsh Government Guidance are included in **Appendix 3**.

10. Financial Implications

10.1 The budget for investment income in 2022/23 is £0.4 million based on an average investment portfolio of £57.5 million at an interest rate of 0.01% for deposits and £10 million of pooled funds at a return of 4.08%. If actual levels of investments, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

11. Other Options Considered

11.1 The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Appendix 1 – Arlingclose Economic & Interest Rate Forecast December 2021

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 2- Existing Investment Portfolio Position

	31.12.2021 Actual Portfolio £m	31.12.2021 Average Rate %
Treasury investments:		
Bank and Building Societies (unsecured)	14.5	0.13
The UK Government	5.0	0.08
Local Authorities	27.0	0.06
Money Market Fund	27.0	0.04
Pooled funds	10.0	3.97
Total treasury investments	**83.5**	**0.53**

Appendix 3 – Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Council's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Council's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,
- loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Council, and
- investment property provides a net financial surplus that is reinvested into local public services.

Climate change: The Council's investment decisions consider long-term climate risks to support a low carbon economy to the extent that if a low carbon investment equivalent is available with the same return, then the low carbon investment would be preferred by the Council.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Loans: Not relevant to the pension fund

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. Limits on non-specified investments are shown in table 3b; the Council confirms that its current non-specified investments remain within these limits.

Table 3b: Non-specified investment limits

	Cash limit
Units in pooled funds without credit ratings or rated below A-	£20m
Shares in real estate investment trusts	£10m
Total non-specified investments	£30m

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. On an assessment as at 31st March 2021, the Council considers that the scale of its non-financial investments as not significant.

Liquidity: For financial investments that are not treasury management investments, or loans, the Council has procedures in place to ensure that the funds are prudently committed for a maximum period of time.

Investment advisers: The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by the Head of Finance and the Investment Manager on a regular basis.

Borrow in advance of need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £200 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Commercial deals: In the event of a commercial deal, the individuals making the deal are aware of the core principles of the prudential framework and of the regulatory regime within which the Council operates.

Capacity, skills and corporate governance: Elected members and officers were invited to a presentation by Arlingclose on 7th February 2022. The information and discussion at the presentation ensures that the members have the appropriate skills and information to enable them to:

- Take informed decisions as to whether to enter into a specific investment.
- To assess individual assessments in the context of the strategic objectives and risk profile of the Council
- Understand how the quantum of these decisions have changed the overall risk exposure of the local authority

Officers also regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, ACA and other appropriate organisations.

Agenda Item 6

COMMITTEE: **PENSIONS COMMITTEE**

DATE: **17 MARCH 2022**

TITLE: **RESPONSIBLE INVESTMENT POLICY**

PURPOSE: **To approve the Responsible Investment Policy**

AUTHOR: **DAFYDD L EDWARDS, FUND DIRECTOR AND DELYTH JONES-THOMAS, INVESTMENT MANAGER**

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1. INTRODUCTION

1.1 The purpose of this report is to approve the Gwynedd Pension Fund Responsible Investment Policy.

1.2 The policy has been discussed by the Pension Board on 7th March 2022.

2. RESPONSIBLE INVESTMENT

2.1 The Fund recognises that environmental, social and corporate governance issues can represent a material financial risk to its stakeholders and can influence the Fund's long-term returns and reputation.

2.2 The Fund has released two responsible investment statements in April and July 2021 and have now formalised their beliefs into a policy.

3. RESPONSIBLE INVESTMENT POLICY

3.1 The draft policy can be seen in Appendix 1 and covers the following main areas:

- Investment Beliefs
- Engagement
- Disclosure and Reporting
- Reducing the Fund's carbon emissions and future goals
- Framework to support Fund's climate ambitions

4. NET ZERO GOAL

4.1 Within the policy, the Fund has committed to set a goal to be net zero by 2050, supported by an undertaking to assess the feasibility of the Fund reaching net zero 5, 10 or 15 years earlier. The factors considered when setting this goal are discussed in the policy.

4.2 A framework has been developed to support the Fund's climate ambitions, covering opportunities, engagement, and monitoring & metrics.

5. FUTURE DEVELOPMENTS

5.1 Currently, LGPS funds can make prudent divestment decisions based on an assessment of the financial consequence of a number of matters, including those relating to Environmental, Social and Governance (ESG) factors. It can be evident in appendix 2 that The Boycotts, Divestment and Sanctions (BDS) Bill has recently been announced where measures to restrict expenditure and procurement decisions made by public bodies has been announced. These developments would enable the Secretary of State to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy.

6. RECOMMENDATION

6.1 The Committee is asked to approve the Responsible Investing policy.

Responsible Investment Policy

March 2022

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Introduction

Gwynedd Council is the Administering Authority for the Gwynedd Pension Fund (the Fund). The Fund administers the Local Government Pension Scheme (LGPS) on behalf of around 49,600 members which comprises of Gwynedd, Anglesey and Conwy Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Adra, various town and community councils, and other scheduled and admitted bodies.

Within its Constitution, Gwynedd Council has delegated responsibility for the administration of the LGPS to a Pensions Committee of elected councillors. The Pensions Committee is the decision-making body for the Fund, advised by Fund officers in their role as scheme administrators. Officers and the Pensions Committee are assisted by a Local Pension Board, made up of representatives of LGPS members and LGPS employing organisations.

The day to day management of the Fund's investments is delegated to professional asset management firms. Regular meetings are held with the Fund's managers, where they are expected to provide a summary of actions that they have taken, or are taking, to consider responsible investment on a day to day basis.

Responsible Investment

Gwynedd Pension Fund aims to deliver strong investment returns over the long term, protecting our stakeholders' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

Gwynedd Pension Fund's purpose in doing this is to better manage risk and generate sustainable, long-term returns. All actions are predicated on fulfilling our core legal obligations – our 'fiduciary duty' – to the employers and scheme members.

The Fund recognises that environmental, social and corporate governance ('ESG') issues can represent a material financial risk to its stakeholders and can influence the Fund's long-term returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG factors.

The United Nations Principles for Responsible Investment describe these as:

- Environmental issues: climate change – including physical risk and transition risk; resource depletion, including water; waste and pollution; deforestation.
- Social issues: working conditions, including slavery and child labour; local communities, including indigenous communities; conflict; health and safety; employee relations and diversity.
- Governance issues: executive pay; bribery and corruption; political lobbying and donations; board diversity and structure; tax strategy.

The Committee considers the Fund's approach to stewardship also as a key area by acting as a responsible and active investor, by commissioning considered voting on the Fund's behalf as shareholders, and by indirectly engaging with investee company management as part of the investment process.

Legal Guidance

In 2014, the Law Commission clarified existing law on divestment decisions which concluded that trustees and administering authorities have the power to make investment decisions based on non-financial factors. However, it said that administering authorities need "good reason to think scheme members share the concern" and that there is "no risk of significant financial detriment to the fund".

Investment Beliefs

The Committee has agreed the following set of investment beliefs in relation to Responsible Investment:

- In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though ESG matters can materially affect risk and returns. Therefore, ESG factors should be embedded in the investment processes and in the decision-making processes of asset managers appointed by the Fund / by the Wales Pension Partnership.
- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.
- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action (such as that taken via Local Authority Pension Fund Forum (LAPFF) membership and commissioned from Robeco alongside Wales Pension Partnership partners) provides the most successful route to influence outputs.
- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the Fund is.
- Shareholder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.
- Training and education is likely to form a key element in developing the Fund and its Committee position on ESG related matters.

Engagement

The Committee recognises that successful engagement can protect and enhance the long-term value of the Fund’s investments. The Committee encourages the Fund’s asset managers to engage with the companies they invest in, where they believe that value can be added, or risk can be reduced.

This engagement can apply across a range of assets. The Committee endorses the principles embedded in the UK Stewardship Code and intends to apply to become a signatory to the updated UK Stewardship Code 2020. The Committee expects both the Wales Pension Partnership and any directly appointed asset managers to be signatories to the UK Stewardship Code 2020. In addition, the Fund believes in collective engagement and is a member of the LAPFF, through which it collectively exercises a voice across a range of corporate governance issues.

The Committee supports engagement activity that seeks to:

- Achieve greater disclosure of information on the ESG related risks that could affect the value of an investment;
- Achieve transparency of an investment's carbon exposure and how such companies are preparing for the transition to a low carbon economy;
- Encourage its asset managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund.

The Committee's investment consultant is required to provide input and analysis to assist the Committee in assessing the Fund's asset managers' performance from an ESG engagement perspective, and this is also a key consideration when the Committee is allocating money to a new fund, or when the Wales Pension Partnership are appointing a new asset manager. The investment consultant's role also includes working closely with the officers to develop appropriate training arrangements.

The Committee liaises closely with the Wales Pension Partnership to ensure that they also adopt the approaches set in this policy. The Fund's asset managers are encouraged to sign up to the appropriate industry initiatives, including the UK Stewardship Code, LGPS Cost Transparency, the Principles of Responsible Investment and upcoming TCFD requirements.

Disclosure and Reporting

The Fund recognises that transparency and disclosure is an important aspect of being a responsible investor. The Fund will:

- make the Fund's Responsible Investment Policy available to members, and incorporate this fully into the way the Fund communicates and interacts with its members,
- make the Fund's Responsible Investment Policy available to wider stakeholders, online in the public domain, and
- report on the Fund's progress and developments in the way it approaches Responsible Investment matters.

Reducing the Fund’s Carbon Emissions and Future Goals

Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to high carbon emitting companies and projects within the Fund’s portfolio could pose a material financial risk.

The Committee recognises that the Fund’s assets are invested globally, and across many sectors, which means reducing the Fund’s carbon emissions is more challenging than it would be for an individual organisation. However, the Committee has committed to set a goal for the Fund to be net zero by 2050, supported by an undertaking to assess the feasibility of the Fund reaching net zero 5,10 or 15 years earlier. The factors considered by the Committee when setting this goal are discussed below.

The Committee believes it is important for LGPS funds to take a leading role in shaping the future, both in terms of supporting the transition to a low carbon economy and achieving broader ESG goals. The Committee is able to exert influence in two ways: through the investment decisions it takes; and through ongoing engagement with the companies and projects the Fund invests in. Against this background, the Committee believes it is appropriate to set a realistic goal while also looking at the feasibility to achieve a more ambitious goal.

At the same time, the Committee believes that the reduction in the Fund’s carbon emissions should be achieved in a measured way. The Fund must remain focused on its primary obligation to pay benefits to its members, including consideration of any associated risks. A measured approach allows the Fund to capture investment opportunities arising from the transition to a low carbon economy, as well as mitigating the risks. Further, a measured approach supports active stewardship, giving the Committee more time and greater scope to effect change and achieve a just transition through ongoing engagement.

Framework to support the Fund’s Climate ambitions

The Committee has developed a framework to support the Fund’s climate ambitions, covering Opportunities, Engagement, and Monitoring & Metrics.

Opportunities

- Review the Fund’s existing mandates in the context of climate risk and net zero ambition (continuous development as shown in in Appendix 1).
- Consider if any mandates could evolve further, or possibly if they should be replaced, due to climate-related investment opportunities to support, and benefit from, the low carbon transition.
- Support the Wales Pension Partnership’s initiatives (such as the 'decarbonisation overlay' and ‘disinvestment from fossil fuel extractors’) and plans to reduce the carbon exposure of the funds it oversees (currently, c82.5% of the Fund’s assets sit within the Wales Pension Partnership framework, and this percentage is expected to grow over time).

Engagement

- Co-operate with the Wales Pension Partnership’s collective engagement protocol, such as jointly commissioning Robeco to engage with the Fund’s asset managers with respect to voting activity on climate-related issues, and to engage with the companies we invest in to influence and improve their behaviour on climate-related issues.
- Engage regularly with the Fund’s asset managers to challenge actions and encourage best practice, referencing Fund's beliefs and climate ambitions.
- Consider disinvestment / reallocation of capital if engagement does not give impact.
- Working together with other LGPS funds through the LAPFF. The LAPFF aims to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds. The Forum engages directly with hundreds of companies and their chairs. This is done by building trust and having a two-way dialogue on corporate responsibility in the areas of stewardship, climate risk, social risk and governance risk.

Monitoring and metrics

- Agree backward / forward looking metrics and set short, medium and long-term targets for each, that support the Fund’s overall net zero goal (this is currently challenging, while standard climate ambition metrics for the LGPS are still awaited, and the means by which we may achieve climate ambitions goals are jointly commissioned with several partners).
- Review the Fund’s investments in relation to these metrics and set a plan for progress.
- The current monitoring and positive progress of Gwynedd Pension Fund’s asset managers can be seen in Appendix 1.

Contacting the Gwynedd Pension Fund

You can contact us in several ways:

Our offices:	Gwynedd Pension Fund Gwynedd Council, Shirehall Street, Caernarfon, Gwynedd. LL55 1SH
By email:	pensions@gwynedd.llyw.cymru
By telephone:	01286 679982
Online:	www.gwyneddpensionfund.wales

Appendix 1: Monitoring of Gwynedd Pension Fund Asset Managers

Fund Manager	Fund	Target allocation	Developments as at March 2022
WPP – Russell Investments	Global Opportunities	14%	A 'decarbonisation overlay' has been implemented by Russell Investments, reducing the carbon footprint by 25%.
WPP – Baillie Gifford, Veritas, and Pzena	Global Growth	14%	Asset managers within this fund have taken steps to reduce its carbon footprint. Baillie Gifford's Paris Aligned fund disinvests from fossil fuel extractors and fossil fuel service providers. Veritas always sought investments synonymous with sustainability. Pzena have sold their holding in a company which formerly contributed to 35% of carbon emissions of Pzena's part of the fund.
WPP – Russell Investments	Absolute Return Bond	15%	Improving responsible investing practices by the fund managers supported by detailed consideration and a number of initiatives.
WPP – Russell Investments	Multi Asset Credit	7.5%	Strong ESG practices across all fund managers and future commitments very strong.
WPP – Russell Investments	Emerging Markets	2.5%	A 'decarbonisation overlay' has implemented which reduces the carbon footprint by 25%.
BlackRock	Aquila Life UK Equity Index	10.5%	BlackRock are signatories to the UK Stewardship Code and engage regularly with companies.
BlackRock	Aquila Life GBL Dev Fundamental	7%	BlackRock are signatories to the UK Stewardship Code and engage regularly with companies.
BlackRock	ACS World Low Carbon Equity	12%	BlackRock's low carbon fund which screens fossil fuels before low carbon optimization, thus reducing carbon relative to a standard global equity index by an additional 44%.
BlackRock	Property	2.5%	BlackRock are in 7th place in the GRESB rating (Global Real Estate Sustainability Benchmark - a global ESG rating for property funds).
Lothbury	Property	2.5%	Lothbury are in 4th place in the GRESB rating.
UBS	Property	2.5%	UBS are in 1st place in the GRESB rating for the 5th year running.
Columbia Threadneedle	Property	2.5%	Columbia Threadneedle are in 32nd place in the GRESB rating, but are improving yearly with improvements in energy consumption, GHG emissions and asset energy performance.
Partners Group	Private Equity	5%	Partners Group embed ESG into the strategy, direction and goals of their portfolio companies.
Partners Group	Infrastructure	2.5%	Partners Group's fund invests in green energy, low carbon fuels and carbon capture infrastructure.

Appendix 2

Extract from https://lgpsboard.org/index.php/structure-reform/bds-main

(last updated 23 February 2022)

Guidance on investments which conflict with UK foreign and defence policy

Background

After failing to defend previous LGPS investment guidance in the Supreme Court (see board summary of judgment) the government undertook to bring it before Parliament through legislation.

The Boycotts, Divestment and Sanctions (BDS) Bill was announced in the Queen's speech for this Parliament (see the article below this one on this page). Although no timetable for the Bill is available it was expected to be the primary measure to bring about the restrictions in the original guidance plus other measures to restrict expenditure and procurement decisions made by public bodies.

The current position on divestment

It is the Board's understanding that it is for LGPS funds to make prudent divestment decisions based on an assessment of the financial consequence of a number of matters, including those relating to Environmental, Social and Governance (ESG) factors. Where such decisions are based on non-financial factors LGPS funds should follow the Law Commission's direction that any financial impact should not be significant and that the decision would likely be supported by scheme members.

PSPJO Bill

In advance of the BDS Bill Robert Jenrick MP raised, at second reading in the Commons, the possibility of amending the PSPJO Bill to include a power for the Secretary of State to make guidance in this area. Support from government was not forthcoming in terms of its own amendment, however he subsequently tabled an amendment (listed as NC1) which was debated on 22nd February at report stage.

Following an at times heated debate and – importantly – a change of stance by the government to support the amendment it passed by 299 votes to 81. On the same day (22nd February) the Bill passed its third reading and will now return to the Lords for consideration of amendments prior to royal assent.

The Amendment NC1

Guidance to public service pension scheme managers on investment decisions

(1) The Public Service Pensions Act 2013 is amended in accordance with subsection (2).

(2) In schedule 3, paragraph 12(a), at end insert "including guidance or directions on investment decisions which it is not proper for the scheme manager to make in light of UK foreign and defence policy.

Member's explanatory statement

This new clause would enable the Secretary of State to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy

Effect of the amendment

The amendment would alter the Public Service Pensions Act (PSPA) 2013 as follows – amendment in square brackets:

3 Scheme regulations

(1)Scheme regulations may, subject to this Act, make such provision in relation to a scheme under section 1 as the responsible authority considers appropriate.

(2)That includes in particular—

(a)provision as to any of the matters specified in Schedule 3;

……

SCHEDULE 3

Scope of scheme regulations: supplementary matters

12 The administration and management of the scheme, including—

(a) the giving of guidance or directions by the responsible authority to the scheme manager (where those persons are different); [including guidance or directions on investment decisions which it is not proper for the scheme manager to make in light of UK foreign and defence policy].

Next steps

The above changes to the PSPA 2013 will not occur until the PSPJO Bill gains royal assent which is expected sometime in March. Prior to it gaining assent the Bill will return to the Lords for consideration of amendments ('ping pong') at which time the amendment may be subject to further debate.

Guidance under this provision, should it be forthcoming, would be expected to be drafted under Investment Regulation 7.

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

Such guidance would also be expected to be subject to a period of consultation which would provide an opportunity for interested parties, including the SAB, to comment on its potential impact. Furthermore, as this will be guidance and not primary legislation further legal action cannot be ruled out. Although the courts could this time be assured it was the intention of Parliament to provide a power to the Secretary of State in this area, a challenge could still be made on the grounds that the guidance was seen to go beyond that intention.

Questions

There are many questions around this provision, most of which cannot be answered until the exact wording of any guidance made under it is available. These include:

- Will the guidance be specific in nature, for example, singling out a particular instance of divestment or be broader, for example banning divestment unless specific government sanctions are in place?
- Will the guidance only cover decisions made for non-financial reasons?
- Will the guidance require immediate divestment upon the imposition of government sanctions on a business or country?
- Will pension funds still be able to make divestment decisions based on a prudent assessment of the impact on long term returns of ESG matters where no sanctions are in place?
- How will 'in the light of' be interpreted by any guidance?

The Board will seek answers to these and other questions from DLUHC and HMT.

Other amendments tabled

There were two other amendments tabled (NC2 and NC3) which potentially would have had an impact on the LGPS in respect of investments to be made in line with the Glasgow 2021 Climate Pact and a requirement to divest from fossil fuels by 2030. Neither of these amendments were put before the House at report stage so they will not be included in the Bill.

Today the government's legislative programme was laid out and includes a Boycotts, Divestment and Sanctions Bill the purpose of which will be to stop public bodies from taking a different approach to

UK Government sanctions and foreign relations and will cover purchasing, procurement and investment decisions. The gov.uk website includes a briefing note on the full programme.

The legal opinions and summaries page has been updated with a link to a summary of the judgment of the Supreme Court in the LGPS investment guidance boycotts and divestment case.

'The SAB welcomes the clarity brought by the judgment of the Supreme Court in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). In seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board's view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters'

The Board's secretariat and legal advisor have commenced work on a draft summary of the judgment which will be published on this site as soon as it is available.

The Supreme Court today handed down its judgment in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent) which was originally heard on 20th November 2019. The court found in favour of the appellants and would appear to take the position that the Government has the power to direct authorities on the approach they take to investment decisions, but not the investments they make.

A Summary of the judgement (PDF 2 pages 180kb) published by the practice at 11KBW is available - please note this summary is the view of 11KBW not necessarily the Board which has yet to consider the implications of the judgment for itself.

COMMITTEE:	**PENSIONS COMMITTEE**
DATE:	**17 MARCH 2022**
TITLE:	**KNOWLEDGE AND SKILLS POLICY AND 2022/23 TRAINING PLAN**
PURPOSE:	**To approve the Knowledge and Skills Policy and 2022/23 Training Plan**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 The purpose of this report is to approve the Gwynedd Pension Fund Knowledge and Skills Policy and 2022/23 Training Plan.

1.2 The policy and plan has been discussed by the Pension Board on 7th March 2022.

2. GOOD GOVERNANCE REPORT

2.1 The Good Governance report by the England and Wales Scheme Advisory Board sets out several recommendations which would improve the Governance of the LGPS, and achieve a level of parity in terms of Governance across the LGPS funds in England and Wales.

2.2 The Good Governance report recommended to:

'Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS Officers and Pensions Committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively'.

A key focus of the Good Governance review centres on the Fund's Officers as well as Committee members having a sufficient level of knowledge to be able to perform their respective roles effectively.

'Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.'

2.3 The Fund has therefore formulated a policy in order to fulfil these requirements.

3. KNOWLEDGE AND SKILLS POLICY

3.1 The draft policy can be seen in Appendix 1 and covers the following main areas:

- Training requirements
- Guidance
- Induction process
- Training plan
- Delivery of training
- Monitoring
- Reporting

4. TRAINING PLAN

4.1 A training plan has been formulated for 2022/23 and can be seen in Appendix 2.

5. RECOMMENDATION

5.1 The Committee is asked to approve the Knowledge and Skills policy and 2022/23 Training plan.

Knowledge and Skills Policy

March 2022

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Knowledge and Skills Policy

Introduction

Gwynedd Council is the Administering Authority for the Gwynedd Pension Fund (the Fund). The Fund administers the Local Government Pension Scheme (LGPS) on behalf of around 49,600 members which comprisess Gwynedd, Anglesey and Conwy Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Adra, various town and community councils, and other scheduled and admitted bodies.

Within its Constitution, Gwynedd Council has delegated responsibility for the administration of the LGPS to a Pensions Committee of elected councillors. The Pensions Committee is the decision-making body for the Fund, advised by Fund officers in their role as scheme administrators. Officers and the Pensions Committee are assisted by a Local Pension Board, made up of representatives of LGPS members and LGPS employing organisations. The Pension Board has an oversight and scrutiny role, and makes recommendations to the Pensions Committee.

The purpose of the Fund's Knowledge and Skills policy is to aid the senior officers, Pension Committee members and Board members in understanding their respective roles and responsibilities, by setting out how they will obtain and maintain the necessary knowledge and understanding in order to fulfil their roles and responsibilities.

Training Requirements

This policy, and regular training, is necessary due to:

- the potential consequences of not administering the Fund in an appropriate manner, due to a lack of knowledge and understanding,
- the complexity of pension and investment issues,
- inevitable changes in Pensions Committee and Board membership, due to election and appointment cycles,
- the Fund being treated by investment managers as a professional client under the FCA Markets in Financial Instruments Directive II (MiFID II).

All Pension Fund Committee members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met, the fiduciary duty owed to the Fund, and ultimately to LGPS beneficiaries.

Guidance

Gwynedd Pension Fund recognises that there is a significant amount of training related guidance and regulations which is targeted at LGPS Funds and Private Sector Pension Schemes, this includes but is not limited to:

- The Pensions Act 2004
- The Public Service Pensions Act 2013
- Scheme regulations (the LGPS Regulations 2013, LGPS Transitional Regulations 2014, and LGPS Investment Regulations 2016)
- LGPC circulars, monthly bulletins, employer guides, administrator guides, legal opinions, and other documents from the Local Government AssociationCIPFA's Code of Practice & Knowledge and Skills Frameworks
- The Knowledge and Skills elements in the CIPFA Investment Pooling Governance Principles guidance
- The Pensions Regulator's codes of practice and toolkits
- The LGPS Scheme Advisory Board's non-statutory guidance, legal opinions, and other documents
- The "MiFID II" (Markets in Financial Instruments Directive) framework

The Fund is supportive of these sources of guidance and regulations and has sought to incorporate the sentiment and nature of these sources into its own knowledge and skills policy and training plan.

Induction Process

On joining the Pensions Committee, the Pension Board or the Gwynedd Pension Fund Management Team, a new member, officer or adviser will be provided with the following documentation to assist in providing a basic understanding of Gwynedd Pension Fund:

- The members' guide to the Local Government Pension Scheme
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Investment Strategy Statement
  - The Communications Policy

New members and senior officers must **complete the LGPS Fundamentals training as soon as possible, once completed, the member will be able to vote at meetings**. Members are encouraged to complete the Pension Regulator Trustee Toolkit, and take interest in current and topical issues.

Training Plan

The Fund's approach to training will be supportive with the intention of providing pension fund committee members, pension board members and officers with regular sessions that will contribute to their level of skills and knowledge. The Fund will develop a Training Plan on an annual basis, which takes account of the following:

Topic based training
Training in relation to current topics will be provided (or made available from partner organisations) as required and appropriately timed, such as when decisions are required in relation to complex issues, or on matters not considered.

General awareness
There is an expectation on those to which this policy applies that they should maintain a reasonable knowledge of ongoing developments and current issues, and have a good level of general awareness of pension related matters appropriate for their roles.

Delivery of Training

The Fund will bear the cost of training delivered through a variety of methods, including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with asset manager firms and advisors
- Attendance at the Wales Pensions Partnership's meetings and events
- Various sources of online training, webinars and virtual meetings and conferences

In addition, Fund officers and advisers are available to answer any queries on an ongoing basis, including providing access to materials from previous training events.

Monitoring

Gwynedd Pension Fund recognises the importance of monitoring the effectiveness and ongoing suitability of this Policy. In order to identify whether the objectives of this policy are being met, the Investment Manager will maintain a training log which records attendance and effectiveness of training as seen in Appendix 1. Any findings or insight will be considered and actioned during the annual review of this Knowledge and Skills policy.

Reporting

A report will be presented to the committee and board on an annual basis setting out:

- the training provided / attended in the previous year at an individual level;
- commentary on how this compares to the Training Plan; and
- any actions required, such as a review of the Training Plan.

This information will also be included in the Fund's Annual Report. The Fund's committee members and pension board members will be provided with details of forthcoming seminars, conferences and other relevant training events.

Contacting the Gwynedd Pension Fund

You can contact us in several ways:

Our offices:	Gwynedd Pension Fund Gwynedd Council, Shirehall Street, Caernarfon, Gwynedd. LL55 1SH
By email:	pensions@gwynedd.llyw.cymru
By telephone:	01286 679982
Online:	www.gwyneddpensionfund.wales

Appendix 1

Cronfa Bensiwn Gwynedd Pension Fund
Cofnod Hyfforddiant / Training Record 2022-23

Enw/ Name:
Rôl/ Role:

Dyddiad/ Date	Amser/ Time	Teitl/ Title	Darparwr/ Provider	Nodiadau/ Notes

Gwynedd Pension Fund Training Plan 2022/23

Background and Introduction

It is best practice for Gwynedd Pension Fund officers, committee and board members to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions,
- the pooling of local authority pension schemes, and
- relevant investment opportunities.

2022/23 Training

We have set out below a list of training topics which have been provisionally planned during the 2022/23 financial year. The topics outlined below are based on current topical priorities and takes into consideration that there could be member changes in the Pension Committee following the council elections in May 2022:

Topic	Provisional Date	Applies to	Provider
Overview of Gwynedd Pension Fund	June 2022	Committee Members	Gwynedd Pension Fund officers and Fund Managers TBC
Private Market Asset Classes & the role of the Allocator	Q1 April – June 2022	Officers, Committee and Board Members	Wales Pension Partnership
Active Sustainable Equities			Wales Pension Partnership
Pool Knowledge: Governance & Administration	Q2 July – September 2022	Officers, Committee and Board Members	Wales Pension Partnership
Pool Knowledge: Roles & Responsibilities			Wales Pension Partnership
What Responsible Investment means for the WPP	Q3 October – December 2022	Officers, Committee and Board Members	Wales Pension Partnership
Stewardship Code and TCFD Reporting			Wales Pension Partnership
Progress of other LGPS pools	Q4 January – March 2023	Officers, Committee and Board Members	Wales Pension Partnership
Collaboration Opportunities			Wales Pension Partnership
LGPS Fundamentals	Autumn 2022	New Committee Members	Local Government Association
Accounts Closedown	March 2023	Officers	CIPFA

Agenda Item 8

MEETING:	**PENSIONS COMMITTEE**
DATE:	**17 MARCH 2022**
TITLE:	**WALES PENSION PARTNERSHIP UPDATE**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. Introduction

The collaboration has been going from strength to strength since its establishment in 2017 and by 31st December 2021, 83% of the Gwynedd fund has been pooled with Wales Pension Partnership – 56% through the main funds and 27% through passive investments.

The performance to date has been very satisfactory and many developments are underway and therefore this paper provides an update for the Committee.

2. Global Equity funds

Global Growth Fund

This is a Global fund consisting of three underlying investment managers (Baillie Gifford, Veritas and Pzena) and Link as the investment manager.

This fund has made great strides in responsible investment with Baillie Gifford completing a portfolio change in 'Global Alpha Paris Aligned' by screening out fossil fuel providers and fossil fuel extractors, which has significantly reduced greenhouse gas density. Veritas and Pzena continually assess their portfolio for the impact of environmental, economic and governmental factors, and act responsibly as necessary.

	Three Months	One Year	Since Inception
Performance	1.6	13.8	15.5
Benchmark	6.2	19.6	15.9
Excess returns	**-4.6**	**-5.8**	**-0.4**

The Fund has consistently performed well above the benchmark with strong performance since inception, but performance has recently fallen behind the benchmark. Performance has been below the benchmark in the last quarter with concerns about the economic recovery but this was to be expected given the recent strong performance. Baillie Gifford and Pzena performed below the benchmark due to certain stocks, but Veritas outperformed the benchmark with conditions favourable to them. More information from these managers can be found in our investment panel which is held on the same day as this committee.

Global Opportunities Fund

This is a Global and Regional fund consisting of eight underlying investment managers (Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ, Oaktree and Nissay) and Russell Investments as the investment manager. A 'decarbonisation overlay' has been implemented by Russell Investments, reducing the carbon footprint by 25% of this fund.

Performance to 31st December 2021 has been as follows:

	Three Months	One Year	Since Inception
Performance	5.2	19.1	15.7
Benchmark	6.2	19.6	15.5
Excess returns	**-1.0**	**-0.5**	**0.2**

This fund is based on a blended approach with a number of different styles (such as value and growth) that complement each other. The Fund has performed well since inception but finished behind the benchmark in the quarter to 31st December 2021. The Fund registered positive absolute returns over the fourth quarter but finished behind the benchmark on a relative basis. In terms of performance, investors preferred quality over the quarter, which was also the best performing factor in 2021. The protection offered by large-cap holdings was also favoured, while growth outperformed value. As such, the multi-factorial approach of Jacobs Levy proved to be beneficial over the period, as well as the Numeric core strategy, which has overweight and large caps. Surprisingly, Morgan Stanley and SW Mitchell's growth managers struggled over the period, particularly due to Morgan Stanley's exposure to technology and SW Mitchell's under-allocation to the strong performing consumer sector. However, Sanders' value strategy did perform better, benefiting from overweight for some of the best performing sectors (i.e., technology, healthcare) over the period. Small caps, momentum, low volatility and yield were the main factors behind in the fourth quarter. This prevented Numeric's low volatility strategy. Meanwhile, Emerging Markets and Japan's equity market underperformed over the period. This weighed on earnings for Oaktree.

3. Fixed Income Funds

The Partnership launched five fixed income sub funds in 2020 and Gwynedd Pension Fund has invested in two of them: Multi Asset Credit Fund and Absolute Return Bond Fund.

Multi Asset Credit Fund

This fund has five underlying investment managers (ICG, Man GLG, BlueBay, Barings and Voya) and Russell Investments as the investment manager. There are responsible investment practices across all managers and future commitments are very strong in the field.

The performance up to 31st December 2021 was as follows:

	Three Months	One year	Since Inception
Performance	-0.1	2.4	5.5
Benchmark	1.0	4.1	4.1
Excess returns	**-1.1**	**-1.7**	**1.4**

The Fund recorded a flat absolute profit in the fourth quarter. Core fixed income markets struggled relative to global equities of this period despite the spread of the Covid-19 Omicron variant. Global central banks have indicated that they will significantly reduce the economic support of the pandemic amid ever-increasing inflation. European loan specialist ICG - the strongest performing strategy since its inception - posted earnings this quarter. Higher inflation data pushed up interest rate expectations and the associated demand for floating rate instruments. European loans were further supported by the continuing demand for expected low yields and deficits. The spread of corporate high-yields has been moderately tightened in the US but has expanded significantly in the EU amid new lock-in measures to include an increase in coronavirus outbreaks. Barings and multi-sector specialist BlueBay underperformed, returning some of their better performance in the longer term this time. Meanwhile, openness to commercial non-agency mortgage-backed securities underpinned Voya's excellence. Emerging Market Debt was flat over the period. Man GLG's specialist manager finished just behind his benchmark, suffering under pressure for Middle East names.

Absolute Return Bond Fund

The fund has four underlying managers (Wellington, Putnam, Aegon and Insight) and Russell Investments as the investment manager. The investment managers are improving responsible investing practices supported by detailed consideration and a number of initiatives.

The performance up to 31st December 2021 was as follows:

	Three Months	One year	Since Inception
Performance	-0.7	0.2	0.5
Benchmark	0.5	2.1	2.1
Excess returns	**-1.2**	**-1.9**	**-1.6**

The Fund returned earnings below its target in the quarter. Core fixed income markets struggled relative to global equities at this time despite the spread of the Covid-19 Omicron variant. The Bank of England surprised markets in November by keeping rates steady, before surprising again with a rate increase of 15 basis point in December (to 0.25%). After reaching a yield of 0.69% in mid-December, the UK gilt 10-year benchmark sold off following the announcement ending just five bps lower for the quarter at 0.97%. Elsewhere, the US Treasury's 10-year benchmark yield and German 10-year bund profit increased two bps to 1.51% and -0.18% respectively. All underlying strategies recorded negative absolute profits during this period.

4. Developments

4.1 Emerging Markets

The Gwynedd fund has transferred its Emerging Markets from Fidelity to the WPP fund on 20th October 2021.

The managers within the new fund are: Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree, with Bin Yuan being a China specialist. A ‘decarbonsation overlay’ has been implemented on this fund, reducing the carbon footprint by 25%.

4.2 Private Markets

A working group has been established looking at the options of combining assets into this category with the assistance of Hymans Robertson. An assessment of the requirements of each fund has been made with ongoing discussion to determine the appropriate structure and mechanism for the investments.

Private Credit and Infrastructure has been the first focus with a procurement process undertaken with specialist adviser, Bfinance, to select investment managers in this area. A recommendation will be made to the 24th March 2022 Joint Governance Committee to appoint the successful managers.

The group will next move on to search for a private equity manager, before moving on to discuss the options for pooling the rest of the private markets, including property.

4.3 Member Representative on the Joint Governance Committee

At the Full Council meeting on 7th October 2021, changes were approved to the Inter Authority Agreement which allows a member representative on the Joint Governance Committee.

The appointment process has now taken place and a recommendation will be presented to the Joint Governance Committee on March 24th 2022. It is recommended that Osian Richards, Gwynedd Pension Fund Pension Board member, will be appointed as the first member representative for a period of two years.

4.4 Stewardship Code

On March 10th 2022 it was confirmed that Wales Pension Partnership has met the expected standard of reporting in 2021 and will be listed as a signatory to the UK Stewardship Code. This is a significant achievement and reflects the strong governance and stewardship within the Partnership.

5. Recommendation

The Committee is asked to note the information.