
PENSIONS COMMITTEE 21-11-22

Present:

Councillors:

Stephen Churchman, Richard Medwyn Hughes, Iwan Huws, Elin Hywel, John Pughe Roberts and Ioan Thomas

Officers:

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

Others invited:

Sioned Parry (Pensions Board Member – observing)
Yvonne Thomas and Ben Hughes (Audit Wales)
Kenneth Taylor (Hymans Robertson)

1. APOLOGIES

Apologies were received from Councillors Goronwy Edwards (Conwy County Borough Council), John Brynmor Hughes and Robin Williams (Isle of Anglesey Council)

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

None to note

4. MINUTES

The Chair accepted the minutes of the meeting held on 27 June 2022 as a true record.

5. TREASURY MANAGEMENT 2022-23 MID-YEAR REVIEW

- a) Submitted, for information, a report highlighting the Council's actual Treasury Management activity during the current financial year. At a meeting of the Full Council in March 2022, the Treasury Management Strategy had been approved for 2022/23 and it had been resolved at the Pensions Committee, 17 March 2022, to permit the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash-flow for this financial year. It was highlighted that, during the six months between 1 April and 30 September 2022, there had been no defaults by banks in which the Council had deposited money. It was reiterated that it was estimated that the Council's investment income would exceed the expected income in the 2022/23 budget.

It was explained, in the external context that it had been a challenging time for markets with political uncertainty and the continuing impact of the conflict in Ukraine. Consequently, inflation had increased at exceptional speed along with the basic interest rate.

In terms of investment activity, there was reference to the type of investments made, which, as usual, included banks and building societies, local authorities, financial market funds, pooled funds and the Debt Management Office. It was reported that the interest rates on the investments had improved by c1.5% during the time in question, and it was anticipated that rates would increase further in coming months. This meant that the expected interest level for the financial year would be significantly greater than the budget forecast.

It was confirmed that treasury management activities held during the period had fully complied with the CIPFA Code of Practice as well as the Treasury Management Strategy. It was noted that the only indicator showing non-compliance was the 'interest rate risk indicator'. It was explained that this indicator had been set when the interest rate was 0.1% and that it had not been possible to anticipate such a significant increase in the interest rate at the time – this would provide another opportunity maybe to attract significantly higher interest income.

In the context of forecasts for the remainder of 2022/23 it was highlighted that Arlingclose were expecting the bank's interest rate to reach 5% by the end of the year and it was expected that Britain would be in recession.

Thanks were expressed for the report.

RESOLVED

- **To accept the report, for information**

6. TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) – LGPS CONSULTATION

- a) The Fund Director submitted a report informing Members that Westminster Government was in the process of consulting on proposals on new requirements for administering authorities of Local Government Pension Scheme (LGPS). As an appendix to the report, a response had been submitted on behalf of the Gwynedd Pension Fund which had been prepared with input from the Fund's advisers, Hymans Robertson.

As expected, the proposals would make it a requirement for LGPS administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures ('TCFD'). Regulations were expected to come into force by April 2023.

It was noted that the Gwynedd Pension Fund supported the consultation and the proposal to embed climate risk governance and reporting requirements in the Local Government Pension Scheme. This would ensure that the requirements of the public sector were aligned with those requirements that were already in place for private sector pension schemes. It was reiterated, as long-term investors, that the LGPS could play an important part in addressing climate change through its investments and stewardship. It was reiterated that the guidelines could also offer a standard procedure to demonstrating progress in a manner that was measurable.

It was highlighted that although the proposals referred to expected statutory guidelines for administering authorities, it was considered that it would be useful to have additional guidelines, statutory or otherwise, for LGPS Funds. This proposal had been submitted as part of the response, noting that, given the importance of such guidance, it was hoped that the government would consult separately on this guidance before the proposals were completed.

The members expressed their thanks for the report.

The Chairman noted that the response had been formed in a constructive manner and he welcomed the officers' observations.

RESOLVED

- **To approve the Gwynedd Pension Fund response to the consultation on governance and reporting on climate risks in the Local Government Pension Scheme (LGPS)**

7. FINAL ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2022 AND RELEVANT AUDIT

Yvonne Thomas and Ben Hughes from Audit Wales were welcomed to the meeting.

- a) Submitted – a report and a Statement of Accounts for the Gwynedd Pension Fund 2021/22 (post audit), by the Fund Director providing details of the Pension Fund's financial activities for the year ending 31st March 2022. Members were reminded that a draft of the accounts had been submitted to the meeting held on 27 June 2022 and that there were no significant changes following the audit by Audit Wales

Yvonne Thomas (Audit Wales) was invited to submit the 'ISA260' report. She noted that the auditors intended to issue an unqualified audit opinion on the accounts this year, once the Letter of Representation had been signed. It was explained that the auditors could never provide complete assurance that the accounts had been accurately stated, but rather that they worked to a level of 'materiality'. A materiality level of £27.794 million had been set for this year's audit, in an attempt to identify and rectify misstatements that might otherwise cause a user of the accounts into being misled.

Attention was drawn to the following headings:

- The effects of Covid-19 on this year's audit
 - There were no uncorrected misstatements found in the accounts
 - Although there were some minor narrative errors in the draft financial statement, they had now been rectified
 - The submitted information was of high quality and was extremely positive
- b) The Auditors were thanked for their cooperation and thorough work. Appreciation was expressed for the commitment and the accuracy of the work and the Investment Manager and the team were thanked for preparing the accounts.
- c) During the ensuing discussion, the following observation was noted:
- That the report was encouraging and positive – and provided confidence that things were going well and the result of the audit highlighted the officers' good work.

RESOLVED:

- **To accept and note the 'ISA 260' report by Audit Wales**
- **To approve the Gwynedd Pension Fund's post-audit Statement of Accounts for 2021/22**
- **To authorise the Chair and Head of Finance to certify the Letter of Representation (electronically)**

8. CURRENCY HEDGING

Mr Kenneth Taylor from Hymans Robertson was welcomed to the meeting.

- a) A report was submitted by the Fund Director outlining the intention to establish currency hedging arrangements in relation to a proportion of the Gwynedd registered equity portfolio. It was reported that the Fund had not historically used currency hedging (with the exception of fixed income mandates), but that current market conditions meant that it would be wise to protect some recent gains against an increase in the value of Sterling in the future. Consequently, the possibility was discussed with the Fund's advisers, Hymans Robertson.

It was suggested that the Committee should consider hedging a proportion of the currency risk by switching Black Rock global equity funds to currency hedged basis, as a short-term tactical measure. This would hedge the currency risk of c40% of the Fund's global equities allocation. The hedge would need to be removed when the Sterling moved to within perhaps 20% of its long-term average exchange rate. This would correspond to an exchange rate of \$1.30 to \$1.35 (about 15% to 20% above current levels).

The advisor reiterated that the option of considering short-term investment by using currency hedging was suitable and would be a means of benefiting from the current exchange rate with the possibility of adding value.

Thanks were expressed for the report.

- b) In response to a question on the costs of transferring to a Black Rock global equity fund, it was noted that there were no transfer costs, only basic maintenance costs.
- c) During the ensuing discussion, the following observation was noted:
- That the advisers' opinion was professional and reasonable
 - Eager to start before missing out on the opportunity
 - Hedging was the best option at the moment and to protect gains in the future.

RESOLVED

- **To accept the report**
- **To approve the proposal to hedge currency on a temporary basis for a proportion of the Fund's equity portfolio**
- **To authorise the Fund's officers and advisor to establish currency hedging arrangements in relation to Gwynedd global equity funds with Black Rock**

9. EXCLUSION OF PRESS AND PUBLIC

RESOLVED to exclude the press and public from the meeting during the discussion on the following items due to the likely disclosure of exempt information as defined in paragraph 14, Schedule 12A of the Local Government Act 1972. This paragraph applies as the reports include information about the

financial or business transactions of any specific person (including the authority that retains that information).

There is an acknowledged public interest in openness in relation to the use of public resources and related financial issues. It was also acknowledged that there were occasions, in order to protect the financial interests of public authorities, that matters related to commercial information needed to be discussed without being publicised. Publishing commercially sensitive information of this type would be inappropriate in terms of third party recognised interests and could undermine the provider's confidence in submitting prices to the Council and, therefore, the Council's ability to make decisions on behalf of the fund. This would be contrary to the wider public interest of securing value for money and the best overall outcome.

10. CLEAN ENERGY PROJECTS IN WALES (WALES PENSION PARTNERSHIP INITIATIVE)

A report was submitted by the Fund Director asking the Committee to approve a financial allocation to invest in direct clean energy projects in Wales. It was noted that the project in question had been discussed at length and observations received from the fund advisers, Hymans Robertson.

RESOLVED

- **To accept the report**
- **To approve a financial allocation (of approximately £9m - £10m) to invest in direct clean energy projects in Wales, noting Wales Pension Partnership's intention to maintain due diligence**

11. REVIEW OF GWYNEDD PENSION FUND'S STRATEGIC ASSET ALLOCATION

A report was submitted by the Fund Director highlighting the conclusions of the three-year review of the Fund's investment strategy produced by the Fund's advisers, Hymans Robertson. Initial recommendations were presented on the assets allocation for the Fund's investment portfolio.

RESOLVED

- **To accept and note the Strategic Review of Asset Allocation**
- **To approve the Fund's amended strategic allocation, Option 2 as outlined in the table under section 3 of the report.**
- **To approve an amended allocation of registered equity as recommended in the table under section 6 of the report.**

The meeting commenced at 14:00 and concluded at 15:10.