

A photograph of a stone tower, likely a Norman tower house, situated in a grassy field. The tower is made of dark stone and has several windows. In the background, there are trees and a clear blue sky. The image is used as a background for the report cover.

# Clwyd Pension Fund Stewardship Report For the year ending 31 March 2022 In accordance with the UK Stewardship Code 2020

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## Foreword

We are proud to submit the Clwyd Pension Fund's (the "Fund") first Annual Stewardship Report, covering the year 1 April 2021 to 31 March 2022.

The Fund has long been an advocate of investing sustainably and the importance of active stewardship. As a supporter of the previous Stewardship Code where the Fund was a Tier 1 signatory, it is vitally important to us to maintain our high standards. We welcome the enhanced scope of the FRC UK Stewardship Code 2020 which encompasses all assets classes with a focus on activities and outcomes.

This report explains how the Fund has fulfilled its stewardship obligations that it has set out in its Investment Strategy Statement (ISS) and its Responsible Investment Policy.

The reporting period has been volatile, with the world economy re-opening after the COVID-19 pandemic, the Russian invasion of Ukraine, rising inflation and increased recessionary risk for all economies. Despite these volatile times, the Fund has not only continued to act in the best interests of its members but has strived to improve its policies and objectives to partially mitigate future risks the Fund may face, as well as looking for opportunities to add value for its members.

Climate change has been a key focus for the Fund over the period, with the risks and opportunities presented being carefully considered by the Fund and its advisors. The Fund has updated its ISS over the period to ensure its beliefs and objectives reflect the responsible investing views of its stakeholders. An example of which is the Fund's Net Zero commitments which are discussed later in the report.

A key objective of the Fund is to invest responsibly in line with the interests of the Fund's members; this allows for members to feel confident that their investments are invested in such a way that is making a difference for the current and future environment. The Fund's engagement with the Wales Pension Partnership (WPP) and Russell Investments in developing a Global Sustainable Equity Fund for all members of the WPP to invest in is a key example of how the Fund is taking ownership of its responsibilities as a responsible investor.

The Fund continues to work in collaboration with the WPP who are responsible for engagement with the investment managers on behalf of the Welsh Pension Funds, including Clwyd Pension Fund. The WPP has actively engaged with managers over the period; these engagements are discussed further in the report.

We are extremely happy with the work and engagement of the Fund over the period and look forward to continuing the good work over the next 12 months.

Cllr. Ted Palmer

Chair Clwyd Pension Fund Committee

# Principle 1

## Purpose and Governance

**“Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”**

**1.1** The Clwyd Pension Fund purpose is to provide death and retirement benefits for around 49,100 local government employees (other than teachers, police and fire fighters) in North East Wales and employees of other qualifying bodies which provide similar services.

**1.2** Local Government Pension Scheme (LGPS) administering authorities are individually responsible for managing their own Fund on behalf of all stakeholders. The key decision making and management of the Fund has been delegated by Flintshire County Council to a formal Pension Fund Committee (with multi-employer and a scheme member representative) supported by a Pensions Advisory Panel. The detailed structure and delegations of authority within the Clwyd Pension Fund is set out further in this report, however much of the culture of the Fund is influenced by the wide representation on the Committee, the Local Pension Board and the officers managing the Fund.

**1.3** The overarching objective of the Fund is to ensure that the Fund can meet all member benefits as they fall due. The Fund therefore aims for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives on an on-going basis, whilst maintaining an appropriate balance between long-term consistent investment performance and the funding objectives.

**1.4** The Fund’s Mission Statement is:

- to be known as forward thinking, responsive, proactive and professional, providing excellent customer focused, reputable and credible service to all customers
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality distinctive services within the resource budget
- to work effectively with partners, being solution focused with a ‘can do’ approach

This applies to the approach to investing the Fund’s monies as well as managing the overall Fund. The Mission Statement has been developed to guide the management of all aspects of the Fund.

**1.5** The Fund’s responsible investment beliefs are set out in [Investment Strategy Statement \(ISS\)](#) which was formally approved by the Fund’s Committee following consultation with key stakeholders. To ensure that the Fund continues to invest in the way its stewards have agreed, within the ISS they have determined a set of beliefs which will guide their decision making. These beliefs are set out below:

- The Fund's fiduciary duty is to act in the best interests of its members and employers. The Fund recognises that ESG issues create risk and opportunity to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore, that these factors should be taken into account in its Funding and Investment Strategies and throughout the decision making process.
- The Fund is a long-term investor, with pension promises for many years, and because of this, it seeks to deliver long-term sustainable returns.
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process.
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment.
- The Fund recognises that transparency and accountability are important aspects of being a Responsible Investor and will demonstrate this by publishing its RI policy and activity for the Fund.
- The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage corporate responsibility.
- The Fund recognises the significant financial risk of not being a Responsible Investor and it seeks to ensure that this risk is mitigated through its Investment Policy and implementation.
- The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and it will make selective investments to support this aim.

**1.6** The Fund recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. The Fund has a commitment to actively exercise the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests and recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees, other stakeholders and also wider society.

**1.7** In 2019 the Fund undertook a review of its Responsible Investment Policy in conjunction with the overall review of the Strategic Asset Allocation. The target for this review was to re-affirm the Fund's existing beliefs, supplement these with additional views if appropriate and consider ways in which these views could be implemented.

**1.8** As a result of this review the Fund's long standing Responsible Investment (RI) Policy was updated to reflect current attitudes and thinking. In addition, to help formally frame the policy, the Fund has set a number of high level beliefs that will sit over the more detailed policies, and will convey the Fund's overarching attitude to being a Responsible Investor.

**1.9** This revised Policy will support the Fund's specific RI aims along with the funding and investments specific objectives which are as follows:

- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these

As a result of this review, and further work in 2021 to articulate the Fund's commitment to a low carbon economy, the Fund's long standing commitment is to achieve a net zero emission's target by 2045.

**1.10** The Fund's objectives are set out in its [Investment Strategy Statement \(ISS\)](#). The specific objectives relating to the funding and investment management of the Fund are summarised below.

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
- Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

The key actions and areas of focus that have been identified to achieve these objectives are included in the Fund's [business plan](#), to align with the key aims and objectives of this strategy.

**1.11** Flintshire County Council delegates its decision making to the Clwyd Pension Fund Committee who meet five times a year to discuss all Fund related matters including make funding, investment and administration decisions, as well as insuring there are robust risk management arrangements in place. The



Committee is made up of five Councillors of Flintshire County Council and four co-opted members who are representatives of the Fund's employers and scheme members. Each member has equal voting rights. All members have a fixed tenure, which is driven by local authority elections for the elected councillor members. However, subject to meeting the criteria for their roles, existing members can be reappointed. All Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate.

**1.12** The Fund is committed to reporting against the UK Stewardship Code. As a member of the WPP, the Fund expects both WPP and the underlying fund managers to comply with the Stewardship Code. WPP has appointed Robeco as its Voting and Engagement provider and they are assisting in updating and maintaining a voting policy and engagement principles that are in keeping with Local Authority Pension Fund Forum (LAPFF).

**1.13** As part of the Government's investment reform, the Fund has participated in the development of the WPP to pool the investments of the 8 Welsh LGPS funds. Whilst all strategic asset allocation and policy decisions remain with the Fund, implementation responsibilities are the responsibility of WPP. The Clwyd Pension Fund is committed to pooling its investments with WPP, and acknowledges that this presents challenges, and also significant opportunities to enhance the Fund's approach to RI. The Fund has proactively engaged with WPP in setting WPP's RI policy and objectives, and is confident that they will enable it to implement its own policies. The Fund will work with the WPP to develop their policies in the future to ensure they remain relevant and appropriate for the Clwyd Pension Fund.

**1.14** The approach taken by the Fund, in line with the above beliefs, has been effective in producing above benchmark returns, improving the funding level, and addressing ESG concerns in a way that leaves the Fund in a strong position as it works to develop more specific ESG policies into 2022/23 and beyond.

- The Fund's assets increased in value by c.13% in the year ending 31 March 2022 against a strategic benchmark (CPI +3.4% p.a.) of 5.5%. Over the three-year period against the Fund returned 9.9% p.a. against a strategic benchmark of 5.5% p.a.
- The estimated funding level of the Fund as at 31 March 2022 was c.101%, improved from c.91% as at 31 March 2019.
- The Fund has an allocation to Local / Impact strategies within the private markets mandate, which over the one year period to 31 March 2022 returned 40.3%.



## Principle 2

### Purpose and Governance

#### **“Signatories’ governance, resources and incentives support stewardship”**

**2.1** Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund (the Fund), for the benefit of employees and former employees of Flintshire County Council, two other local authorities (Wrexham and Denbighshire) and fifty two (52) other large and small employers in North East Wales.

**2.2** The main activities involved in managing the Fund are to make and manage investments and to administer the payment of scheme benefits. This is carried out in accordance with the requirements of the Local Government Pension Scheme (LGPS) Regulations 2013 and various other legislative requirements, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Public Service Pensions Act 2013.

**2.3** The Council is responsible for ensuring that all its business, including that of the Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and that there are proper arrangements to use money economically, effectively and efficiently. The Council is also required to ensure that the Fund is managed to deliver best value.

**2.4** The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council’s operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

**2.5** To help ensure that the governance framework is robust, the Council recognises the emphasis placed upon corporate governance by the Welsh Government and has developed a Code of Corporate Governance (the Code) which defines the principles that underpin the governance of the organisation and is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. The Code forms part of the Council’s constitution and is available on the Council’s website. The operation of the Fund is governed by this code. The Fund produces its own Annual Governance Statement (AGS) which is in the annual report. Additionally, the Council produces its own AGS, both of these review the effectiveness of the control environment.

**2.6** The Fund has its own Governance Policy in place. This policy sets out the Fund's governance arrangements, including its governance structure and operational procedures for the delegation of responsibilities. It also sets out the Fund's aims and objectives relating to its governance. In accordance with the requirements of the Public Services Pensions Act 2013, the Fund has established a Local Pension Board (the Board) to act as a partner in assisting the Fund to meet its statutory and regulatory requirements and in ensuring efficient and effective governance and administration.

**2.7** The Council discharges its duty as administering authority by delegation to the Clwyd Pension Fund Committee (the Committee). The Committee is made up of 5 of the Council’s own councillors and 4 co-opted members, representing the other 2 local authorities, other employers and the scheme members. The Committee receives advice from the Clwyd Pension Fund Advisory Panel (the Panel) which is made up of officers of the Council and advisors to the Fund.

**2.8** The Fund is governed by the Clwyd Pension Fund Committee who have the responsibility for all Fund matters including governance, investment and funding strategies, accounting, employer and scheme member engagement, communications, and administration. The Pension Fund Committee delegates the day-to-day running of the Fund to officers. The Head of Clwyd Pension Fund has overall delegated powers for the management of the Fund on a day-to-day basis. The Chief Finance Officer, who is a member of the Advisory Panel, must ensure the proper financial management of the Fund in accordance with Section 151 of the Local Government Act 1972.

**2.9** There are strict rules around the governance of the Fund as set out by legislation that applies to all LGPS funds; the Fund reports in detail on how it adheres to those rules every year in the Annual Report, as well as publishing all Fund governance policies which are available on the Fund's website at the following link: [Clwyd Pension Fund Policies](#)

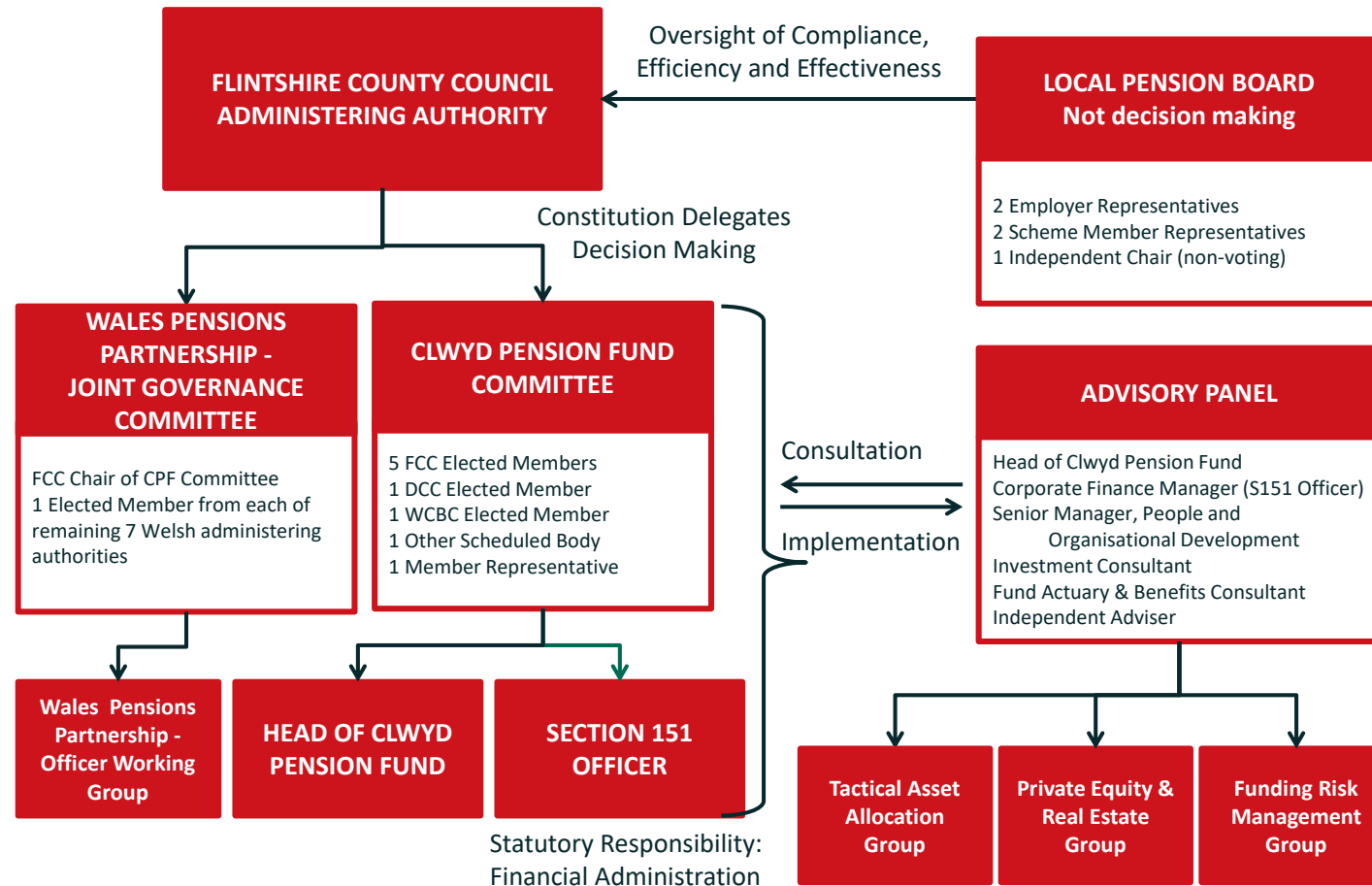
**2.10** The Fund has a Knowledge and Skills Policy that applies to all Pension Fund Committee members, Pension Board members and officers. Training is delivered through several avenues including:

- A series of induction sessions for new Pension Fund Committee and Pension Board Members
- In-house training sessions by officers and advisors, sometimes as part of Committee meetings
- Conference, seminars and other externally organised training sessions/ events.

The actual costs and expenses relating to approved training are met directly or can be reimbursed from the Clwyd Pension Fund. The co-opted members of the Pension Fund Committee and members of the Pension Board may receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme and the Pension Board Protocol.

The Knowledge and Skills Policy is aligned to meet CIPFA's Code and also MiFID II requirements, and has a range of objectives and targets covering induction, essential training and general awareness that are reported at each Committee. A training needs assessment is carried out at least every two years.

**2.11** The below diagram outlines the governance structure for pension fund matters, with each section of the governance structure explained further down in more detail:



## 2.12 Wales Pension Partnership (WPP)

The Wales Pension Partnership (WPP) was established in 2017, and represents a collaboration of the eight LGPS funds (Constituent Authorities), including Clwyd Pension Fund, covering the whole of Wales. WPP is one of eight national LGPS pools. Before the WPP was established, the eight Welsh Constituent Authorities had already been working together, having appointed BlackRock as the single passive manager in March 2016. The diagram below outlines the governance structure for the WPP.

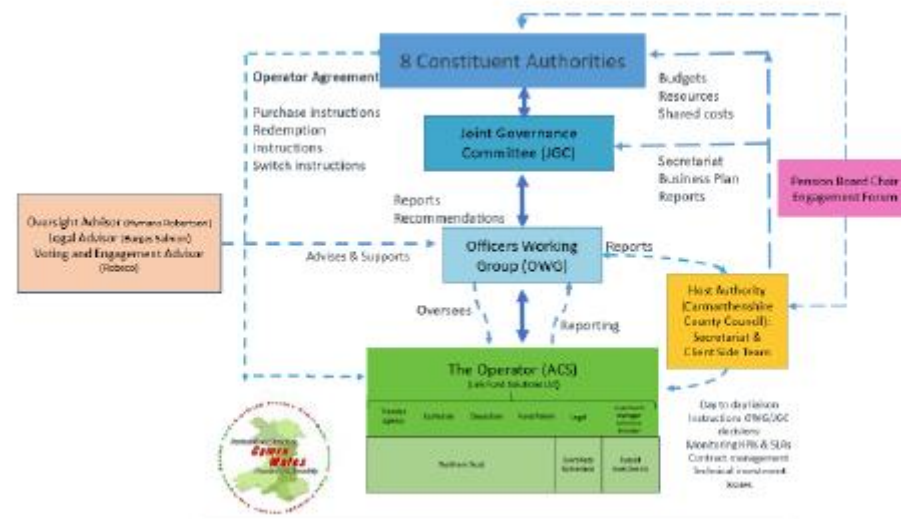
WPP Sub-Groups (Clwyd Pension Fund officers are all on sub-groups):

- Responsible Investment Sub-Group – responsible for formulating and delivering WPP's Responsible Investment Workplan, as well as liaising with the WPP's Voting and Engagement Provider (Robeco). The group meet twice a quarter.
- Risk Sub-Group – responsible for monitoring, maintaining and implementing the WPP's Risk Register and Policy. The group meet quarterly.
- Private Market Sub-Group – responsible for formulating and developing the WPP's Private Market Sub-Fund(s). The group are currently meeting bi-weekly.
- Procurement Sub-Group – responsible for procurement exercises. Members will change depending on the procurement exercise. The group meet as and when required.

### Further Information on WPP

- Carmarthenshire County Council are the host authority for the WPP.
- Hymans Robertson – advisor to the WPP
- Burges Salmon – legal advisor to the WPP
- Robeco – Voting and Engagement provider
- Link Group – Operator of the pool
- Northern Trust – Custodian

Source: Wales Pension Partnership, <https://www.walespensionpartnership.org/>



## **2.12 continued**

Principle 7.5 details further how WPP has partnered with Link and Robeco.

## **2.13 Clwyd Pension Fund Officers**

The key officers responsible for investment matters of the Clwyd Pension Fund currently include:

- Philip Latham: Head of Clwyd Pension Fund
- Debbie Fielder: Deputy Head of Clwyd Pension Fund
- Ieuan Hughes: Graduate Trainee Investment Officer

The Fund hired Ieuan Hughes into the team in 2019, with the view of training him up in all areas to help support the historical knowledge and skills within the Fund and ensuring continuity going forward. In addition, the appointment maintains the local investment knowledge required to collaborate and challenge the WPP.

Officers of the Fund use their knowledge and experience with the help of their advisors to recommend policy and strategy to the Pension Committee. Officers help arrange and deliver training for the Committee in all subject matters including but not limited to: investments, responsible investment, risk management, governance. In doing so, this ensures that the Committee have the appropriate knowledge and skills to make informed decisions on all matters related to the Fund.

Officers work in collaboration with the WPP on all pooling matters and are therefore closely involved in decision making in areas such as creation of new sub-funds, voting and engagement, and monitoring of existing pooled managers. WPP also provide training sessions, much of which is open to all Pension Fund Committee and Board members.

As part of the WPP's remit in delivering the Fund's strategy, the WPP are also responsible for ensuring the Fund's engagement policy is delivered. This responsibility is then further delegated to Robeco who are appointed to engage on behalf of WPP, and therefore the Fund. Fund officers sit on the WPP RI sub group to review voting and engagement activities conducted on the Fund's behalf. Fund officers engage regularly with the private market managers to understand the latest positions of these funds, their implementation of key objectives and any future plans. The Fund's membership of LAPFF ensures that the Fund is encouraging engagement with companies that the Fund potentially doesn't own, further enhancing the stewardship of the wider financial system.

## **2.14 Clwyd Pension Fund Committee**

The Pension Fund Committee's principal aim is to carry out the functions of Flintshire County Council as the Scheme Manager and Administering Authority for the Clwyd Pension Fund in accordance with LGPS legislation.

The members on the Clwyd Pension Fund Committee are not trustees of the Fund, however, they do have a fiduciary and public law duties to the Fund's scheme members and employers, which is analogous to the responsibilities of trustees in the private sector and they could be more accurately described as 'quasi trustees' responsibilities.

The Committee may also delegate a limited range of its functions to one or more officers of Flintshire County Council, which it does so under a formal Scheme of Delegation, which ensures timely decision making at an appropriate level.

No matters relating to Flintshire County Council's responsibilities as an employer participating within the Clwyd Pension Fund are delegated to the Pension Fund Committee, ensuring a clear separation of responsibility between the employer and the "quasi trustee" responsibilities.

The Pension Fund Committee meets at least quarterly and is composed of nine members as follows:

- Five Councillors of Flintshire County Council, determined by the Council.
- Four co-opted members comprising:
  - One Councillor of Wrexham County Borough Council, determined by that Council.
  - One Councillor of Denbighshire County Council, determined by that Council.
  - One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund.
  - One Representative of the scheme members of the Clwyd Pension Fund (nominated by the Joint Trade Unions)

The Council's Constitution permits named substitutes for Flintshire County Council members only, providing they satisfy the knowledge and skills policy of the pension fund. Councillors of Flintshire County Council are appointed annually. Otherwise, the terms of reference for the members range from four to six years. Members may be reappointed for further terms.

All members have equal voting rights. Ensuring scheme member and employer representatives can equally contribute to the Fund's strategies and how they are delivered.

### **2.15 Section 151 Officer – Corporate Finance Manager**

Under the Council's current operating model, the Chief Finance Officer (S151) role is designated to the Corporate Finance Manager. The Corporate Finance Manager therefore has a statutory responsibility for the proper financial administration of the Clwyd Pension Fund, in addition to that of Flintshire County Council. The Section 151 Officer is CIPFA qualified and is suitably experienced to lead the finance function.

## 2.16 Clwyd Pension Fund Advisory Panel

The Clwyd Pension Fund Advisory Panel has been established to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee. Its membership consists of:

- The Chief Executive of Flintshire County Council (Recently changed to the Senior Manager – Human Resources and Organisational Development)
- The Chief Finance Officer of Flintshire County Council
- The Head of Clwyd Pension Fund
- Investment Consultant: Mercer
- Scheme Actuary: Mercer
- Independent Advisor: Aon

## 2.17 Wales Pension Partnership Joint Governance Committee

To satisfy the Government's requirements to reduce investment related costs, the eight LGPS administering authorities in Wales, including Flintshire County Council, have entered into an Inter Authority Agreement to pool pension fund assets, a key part of which is done by appointment of an Authorised Contractual Scheme Operator to make the investments on behalf of the administering authorities. This was agreed at the Flintshire County Council meeting on 1st March 2017. The report and appendices can be found [here](#).

As part of this pooling arrangement, the authorities have also established a Joint Governance Committee with a number of responsibilities including the following:

- Monitoring the performance of the Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight Funds
- Providing accountability to the participating Funds on the management of the Pool
- Reporting on the Pool to the UK Government and other stakeholders
- Having oversight of an Officer Working Group

Flintshire County Council has determined that the Clwyd Pension Fund representative on the Joint Governance Committee is the Chair of the Pension Fund Committee. In his or her absence, the Vice Chair acts as the Deputy.

The Pension Fund Committee determines which officers of Clwyd Pension Fund represents the Fund on the Officer Working Group. Currently the Head of Clwyd Pension Fund and Deputy Head of Clwyd Pension Fund are both members of the Officer Working Group.

The Joint Governance Committee meets at least four times each year and is composed of one elected member from each Administering Authority responsible for maintaining an LGPS Pension Fund in Wales. These are:



- Carmarthenshire County Council
- City & County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council.

Each member present at the Joint Governance Committee is entitled to a vote and all members have equal voting rights.

Carmarthenshire County Council acts as Host Council in relation to the Wales Pension Partnership Inter Authority Agreement. This role includes the following in relation to the management of the pooling arrangements:

- Acting as the main point of contact
- Providing administrative resources and facilities, and governance and administrative services
- Entering into contracts for supplies and services
- Liaising with the Operator

## **2.18 Wales Pension Partnership Officer Working Group**

The Wales Pension Partnership Officer Working Group has been established as part of the Wales Pension Partnership Inter Authority Agreement to support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates two officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group.

The full list of responsibilities and procedures relating to the Joint Governance Committee, Officer Working Group and Host Council are included in the Inter Authority Agreement.

## 2.19 Pension Board

Each LGPS Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees as they are a requirement of the Public Service Pensions Act 2013, which provides an additional element of independence overseeing the management of the Fund. As such the Constitution of Flintshire County Council does not apply to the Pension Board unless it is expressly referred to in the Board's Protocol. The Clwyd Pension Board was established by Flintshire County Council in March 2015 and the full Protocol of the Board can be found within the Council's Constitution. The key points are summarised below.

The Pension Board provides oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pension Fund Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the Pension Fund Committee.

The Pension Board consists of five members as follows:

- Two Employer Representatives
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions, and one who is a member of the Clwyd Pension Fund
- One Independent Member who acts as chair of the Pension Board.

All Pension Board members, excluding the Independent Member, have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only considered quorate when at least three of the five members are present, including at least one Employer Representative, one Scheme Member Representative and the Independent Member.

Members of the Pension Board are required to declare, on appointment and at each meeting, any interests that may lead to conflicts of interest in relation to Pension Fund matters or agenda items.

The Pension Board meets a minimum of twice and a maximum of four times in each calendar year in the ordinary course of business. Additional meetings may be arranged.

# Principle 3

## Purpose and Governance

### **“Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first”**

**3.1** Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisors to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an advisor to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

**3.2** It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed.

**3.3** Although there is no legal requirement to produce a Conflicts of Interest Policy, the Fund recognises that potential conflicts can arise and therefore still carry out this practice. Clwyd Pension Fund’s Conflict of Interest Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity. The Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisors. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund.

**3.4** The Conflicts of Interest Policy applies to all members of the Pension Fund Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to the Pension Fund Management Team and other senior officers involved with the management of the Fund. The Policy delegates the overall responsibility for implementing its requirements to the Head of Clwyd Pension Fund. The Head of the Clwyd Pension Fund will also monitor potential conflicts for all officers involved in the daily management of the Pension Fund and highlight this Policy to them as they consider appropriate.

**3.5** The Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role and including responsibilities representing the Fund on other committees, groups and bodies.

**3.6** The Policy also applies to all advisors and suppliers to the Fund, whether advising the Pension Board, Pensions Fund Committee or Fund officers.

**3.7** The Policy can be found on the Fund's website – <https://mss.clwydpensionfund.org.uk/home/investments-and-governance/strategies-and-policies/>

**3.8** In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee has agreed a Conflicts of Interest Policy which applies to those involved in the Wales Pension Partnership, including the Joint Governance Committee members (which includes the Chair of the Clwyd Pension Fund Committee).

**3.9** The Fund's Policy includes procedures (set out overleaf) which must be followed by all individuals to whom this policy applies. However, it should be noted all members of the Pension Fund Committee (including co-opted members) have a pre-eminent requirement to follow and abide by the requirements of Part 3 of the Flintshire County Council Members' Code of Conduct relating to the treatment and disclosure of certain personal and prejudicial interests. Accordingly, for those members, disclosures under this policy may be in addition to disclosures under the Council's Code of Conduct.

**3.10** Clwyd Pension Fund officers are employees of the Council and are subject to normal pay arrangements. Officers do not receive any performance related pay, or incentivisation for investing with investment managers or specific asset classes. The Head of Clwyd Pension Fund and the other officers are also only responsible for the Pension Fund and do not have any other further council responsibilities within their roles.

**3.11** Over the period in question, there have not been any specific conflicts of interest related to stewardship identified. The Fund reviews its underlying providers approach to managing potential conflicts of interest with respect to stewardship activities.

**3.12** In 2021, Debbie Fielder the Deputy Head of the Clwyd Pension Fund was appointed to the board for Pensions for Purpose as a Non-Executive Director (NED). Pensions for purpose seeks to drive best practise on areas of investment. As a result, Debbie updated her Conflict of Interest disclosure and informed all parties required of the appointment.

What is required	How will this be done
<b>Step 1:</b> Initial identification of interests which do or could give rise to a conflict	On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest. The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest.
<b>Step 2:</b> Ongoing notification and management of potential or actual conflicts of interest	<p>At the commencement of any Pension Fund Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chair will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the minutes of the meeting and also in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Head of Clwyd Pension Fund to the Chair of every meeting prior to that meeting if required.</p> <p>At Clwyd Pension Fund Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda. Any individual who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chair and the Head of the Clwyd Pension Fund prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chair, in consultation with the Head of the Clwyd Pension Fund, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter. If such a conflict is identified outside of a meeting the notification must be made to the Head of the Clwyd Pension Fund and where it relates to the business of any meeting, also to the Chair of that meeting. The Head of the Clwyd Pension Fund, in consultation with the Chair where relevant, will consider any necessary action to manage the potential or actual conflict. Where information relating to any potential or actual conflict has been provided, the Head of the Clwyd Pension Fund may seek such professional advice as they think fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest and in the minutes of the meeting if raised during a meeting.</p>
<b>Step 3:</b> Periodic review of potential and actual conflicts	At least once every 12 months, the Head of the Clwyd Pension Fund will provide to all individuals to whom this Policy applies a copy of their currently declared Pension Fund conflicts of interest. All individuals will complete confirm that their information is correct or highlighting any changes that need to be made.

# Principle 4

## Purpose and Governance

### **“Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system”**

**4.1** LGPS Investment Regulation 7(2) (C) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate).

**4.2** The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives on an on-going basis, whilst maintaining an appropriate balance between long-term consistent investment performance and the funding objectives.

**4.3** The Fund’s overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund’s long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy. Clwyd Pension Fund acknowledges that good stewardship involves good risk management and has produced a Risk Management Policy and Risk Register.

**4.4** The Risk Management Policy clearly sets out how the Fund identifies, manages and monitors all risks that it faces. The policy also sets out its objectives which are:

- Integrate risk management into the culture and day-to-day activities of the Fund
- Raise awareness of the need for risk management by all those connected with the management of the Fund (including advisors, employers and other partners)
- Anticipate and respond positively to change
- Minimise the probability of negative outcomes for the Fund and its stakeholders
- Establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- Ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships

**4.5** The Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity. The risk register is continually updated and key risks are considered on a regular basis at the Committee and AP meetings.

**4.6** To enable the Clwyd Pension Fund to manage risk and achieve its objectives, the fund aims to comply with:

- The CIPFA Managing Risk publication
- The managing risk elements in the CIPFA Investment Pooling Governance Principles guidance and
- The managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes (or the expected Single Code when it is in place).

**4.7** The Risk Register must be presented to the Pensions Committee at least twice a year, but in practise it is provided at each quarterly meeting. The Fund's officers and advisors along with the Committee discuss the risks that the Fund faces and how these risks will be managed. There are currently nine risk categories within the funding and investment section of the risk register and they are:

- Employer contributions are unaffordable and/or unstable
- Funding level reduces, increasing deficit / reducing surplus
- Investment targets are not achieved therefore materially reducing solvency / increasing contributions
- Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions
- Value of liabilities/contributions change due to demographics being out of line with assumptions
- Investment and/or funding objectives and/or strategies are no longer fit for purpose
- Insufficient cash or liquid assets to pay benefits
- Loss of employer income and/or other employers become liable for their deficits
- The Fund's Long term Investment Strategy fails to deliver on its ambition and objectives as a Responsible Investor

**4.8** The Fund's ISS also addresses other relevant risks such as solvency and matchmaking risk, manager risk, liquidity risk, political risk, corporate governance risk, legislative risk, market risk (currency risk, interest rate risk and inflation risk). Ultimately the Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.

**4.9** In 2014, the Fund set up the Cash & Risk Management Framework. This framework includes:

- Funding level monitoring
- Liability Hedging
- Synthetic Equity Portfolio
- Currency hedging
- Collateral management strategy



## **Funding Level Monitoring**

An approximate funding level is monitored daily and reported formally to the Funding and Risk Management Group on a monthly basis. Should the approximate daily monitoring indicate that the 110% trigger has been reached, an agreed process will be followed (as outlined in the “Delegation of Functions to Officers by the Pension Fund Committee”) to formally confirm whether the trigger has been met and whether any changes to the strategy should be made.

## **Liability hedging programme, controlling the Fund’s interest rate and inflation risk**

In March 2014, the Fund established a liability hedging programme covering both interest rate and inflation risks. A ‘flightpath’ for increasing the level of protection was agreed based on market yield triggers to ensure that risk was reduced at favourable times. Since the adoption of the flightpath, a number of market triggers have been implemented.

As part of the 31 March 2019 actuarial valuation and investment strategy review cycle, the officers and Fund’s actuarial and investment consultants reviewed the flightpath and no changes were made to the interest rate and inflation triggers.

## **Synthetic equity portfolio, gaining exposure to equities whilst hedging the downside risk**

The Fund implemented a synthetic equity strategy in order to increase its expected return potential in a capital efficient manner. In order to manage the downside risks associated with the synthetic equity strategy, a static equity protection strategy was put in place, protecting against equity market falls on the equity exposure. This was in place from April 2017 until May 2018.

In May 2018, a new dynamic protection strategy was put in place. This provides improved flexibility and on-going governance versus the previous static approach as it allows the structure to more easily adapt to changing market conditions.

## **Currency hedging strategy**

In August 2019, the Fund implemented a currency hedging strategy to reduce the risk of a strengthening pound devaluing the value of the Fund’s physical overseas equity holdings. This was in light of the continued weakening of sterling. As holders of overseas assets, the Fund had benefitted significantly from the fall in sterling following the EU referendum and wished to reduce currency risk by locking in a portion of the gains made.

## **Collateral management strategy**

The above strategies make use of derivatives and therefore require collateral to be set aside in order to support the positions and protect the Fund (and counterparties) from the risk of default. There is a balance between holding enough collateral to support the strategies against a material and sudden move in markets, versus holding too much that it becomes a drag on the Fund’s returns.

In order to manage this balance, the Fund implemented a collateral management strategy. This ensures that the Fund holds the required amount of collateral to support the strategies, with any excess collateral held in higher yielding funds that can be sold quickly if more collateral is required. This helps generate additional return and reduces the governance burden on the Fund, leading to improved efficiency.

**4.10** The Fund acknowledges that climate change presents a systemic financial risk that must be addressed, and in 2019 the Fund started a review of its responsible investment policy. The revised policy set out the below Responsible Investment Principles:

- Evaluate and manage carbon exposure
- Identify sustainable investment opportunities
- Improve public disclosure and reporting
- Active engagement on ESG risks
- FRC Stewardship Code

**4.11** More recently the Fund updated its ISS in February 2022 in which the below responsible objectives were outlined:

- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these

**4.12** ISS guidance given by the Secretary of State states that administering authorities should become signatories to the Code, and states how they implement the principles on a "comply or explain" basis. In practice the Fund continues to apply the requirements of the Code both through its arrangements with its asset managers and through membership of the LAPFF. As a member of the WPP, the Fund expects both WPP and the underlying fund managers to comply with the Stewardship Code. WPP has appointed Robeco as its Voting and Engagement provider and they are assisting in formulating and maintaining a voting policy and engagement principles that are in keeping with the LAPFF. In addition, Robeco are responsible for implementing the voting policy and reporting on it.

**4.13** The Fund has continued to engage throughout the last financial year with local authority colleagues, regulators, and industry bodies as part of its wider commitment to improving the functioning of financial markets, including continuing its ongoing membership of the LAPFF and the Pensions and Lifetime Savings Association (PLSA). The Fund engages with all of its asset managers to ensure that they are fully aware of their responsibilities with regard to sustainability, and one of the ways in which the fund management industry can demonstrate that it takes its responsibilities seriously is to become a signatory to the UN Principles for Responsible Investment (UN PRI). Firms that are signatories to the UN PRI are required to commit to a set of six principles promoting and incorporating Environmental Social and Governance (ESG) principles into all aspects of its work.

**4.14** The Fund has actively engaged and participated in initiatives with the LAPFF through its membership. The Fund was the second member to join the LAPFF in Wales, becoming a member in the early 'noughties'.

**4.15** The Fund has been actively involved in the development of a new active sustainable equity sub-fund with WPP which is on course to be launched later in 2022, demonstrating the involvement of the Fund officers in promoting sustainable investments which will benefit the Fund, as well as the other seven Funds within the pool. Further information can be found in Principle 10.1.

# Principle 5

## Purpose and Governance

### **“Signatories review their policies, assure their processes and assess the effectiveness of their activities”**

**5.1** The Fund’s procedures and policies are regularly reviewed by the Fund’s officers, Pension Fund Committee, Pension Fund Advisory Panel and in some situations, by the Pension Board. These reviews are part of the activities that the Committee undertake to provide the Fund with good stewardship. The ISS and Funding Strategy Statement (FSS) are formally approved by the Pensions Committee, and are reviewed at a minimum of every three years, which aligns with the Fund’s triennial actuarial valuation, however these can be reviewed more frequently than this. The review of the ISS and FSS aims to identify and implement any process improvements to reflect emerging / developing initiatives in the industry or required statutory changes. The review of these policies may result in further policies and procedures to be drafted. The Fund’s latest policies are available on the Fund website at the following link: [Clwyd Pension Fund Policies](#) and all key strategies and policies have a clearly defined period for review.

**5.2** The Fund is committed to reviewing its compliance against the latest Financial Reporting Council (FRC) Stewardship Code. As a member of the WPP, the Fund expects both WPP and the underlying fund managers to comply with the Stewardship Code. WPP has appointed Robeco as its Voting and Engagement provider and they are assisting in updating and maintaining a voting policy and engagement principles that are in keeping with the LAPFF. In addition, Robeco are responsible for implementing the voting policy and reporting on it.

**5.3** As a Fund, there are several ways in which assurance is sought in relation to the Fund’s stewardship, for example:

- The Fund’s Annual Report and Financial Statements are externally audited; the most recently audited accounts for March 2021 received an unqualified audit opinion, representing a “true and fair view” of the Fund’s financial transactions to have taken place during the year and the year-end balance of assets and liabilities.
- The Fund officers carry out an annual review against the Pension Regulator’s Code of Practice, to identify areas of compliance and non-compliance.
- The Fund commissioned an effectiveness review of the Pension Fund Committee, the review asked all members their views on the effectiveness of the Fund’s governance arrangements.
- The independent advisor carries out an annual review of the governance of the Fund as a whole, against Aon’s best practice governance framework. By seeking external assurance from an independent third party, the Fund and its stakeholders can be confident of an unbiased and unprejudiced view of the effectiveness of the Fund’s stewardship processes.

- When contracts are due for renewal the Fund follows the stringent procurement policies of Flintshire Council as set out in Flintshire's Contract Standing Orders, which includes a policy on responsible procurement to ensure that all high value procurements focus on delivering value for money and achieving additional economic, social and environmental benefits.
- The majority of policies and strategies have clearly defined objectives and measures in place, which drive the content of the regular reports to the Committee.

**5.4** The WPP has appointed Hymans Robertson as Oversight Advisors. Their role spans oversight and advice on governance arrangements, operator services, strategic investments aspects and project management support. One of the ongoing roles of the Oversight advisor will be to assess the management of the Sub-Funds and test the processes that are being employed, as outlined above. Hymans attend all OWG and JGC meetings.

**5.5** The RI Sub Group has worked to develop reporting on the ESG and climate risk characteristics of Sub-Funds and intends to cascade this information down to Constituent Authorities. This reporting is being prepared independently of the reporting provided by the investment manager, serving to verify the information that is otherwise made available. Robeco also provide quarterly reporting on Voting and Engagement activity which has been shared with Constituent Authorities.

## Principle 6

### Investment Approach

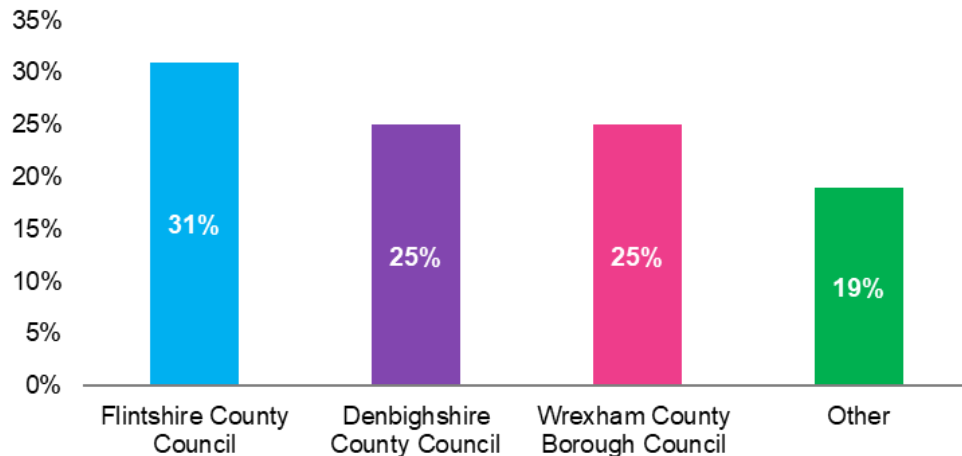
**“Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them”**

**6.1** The Clwyd Pension Fund is part of the Local Government Pension Scheme, a statutory public service scheme providing defined benefits to its members based on their earnings and length of service, and is administered by the Flintshire County Council on behalf of all employers in the Fund. Benefits are funded by member and employer contributions and investment returns and are guaranteed by statute.

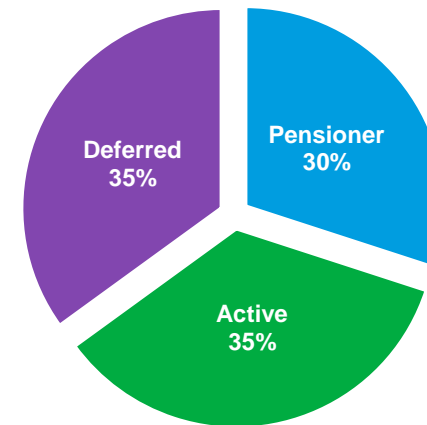
**6.2** Whilst most members will be local authority employees (and ex-employees), other employers can also join the scheme where they are providing services in place of (or alongside) local authority services, such as contractors, housing associations and charities.

**6.3** As at 31 March 2022, there were 48,958 members. The three unitary authorities are the largest employers in the Clwyd Pension Fund, representing 81% of the overall membership at the last valuation date. Membership by category and by employer is shown in the charts below:

#### Membership by Employer



#### Member Splits



**6.4** The Fund's strategic allocation along with invested assets as at 31 March 2022 is set out below:

Asset Class	31 March 2022 (£m)	31 March 2022 (%)	Strategic Allocation (%)
Global Equity*	263.3	10.6	10.0
Emerging Market Equity	220.8	8.9	10.0
Multi-Asset Credit	246.0	9.9	12.0
Hedge Funds	158.0	6.4	7.0
Tactical Allocation Portfolio	273.1	11.0	11.0
Property (Private Markets)	146.3	5.9	4.0
Private Equity (Private Markets)	200.2	8.1	8.0
Local/ Impact (Private Markets)	79.3	3.1	4.0
Infrastructure (Private Markets)	124.7	5.0	8.0
Private Debt (Private Markets)	52.6	2.1	3.0
Timber/ Agriculture (Private Markets)	14.1	0.6	0.0
Cash and Risk Management Framework	626.3	25.2	23.0
Trustee Bank Account	79.6	3.2	0.0
<b>Total Clwyd Pension Fund</b>	<b>2,484.5</b>	<b>100.0</b>	

Source: Investment Managers. Totals may not sum due to rounding.

\*Includes 5% allocation to Sustainable Equity. More information on section 6.7.



## 6.5 WPP vs Non-WPP Funds:

Pooled Assets	31 March 2022 (£m)	Weight (%)	Strategic Weight (%)
Global Equity*	263.3	10.6	10.0
Emerging Market Equity	220.8	8.9	10.0
Multi-Asset Credit	246.0	9.9	12.0
<b>Total WPP Assets</b>	<b>730.1</b>	<b>29.4</b>	<b>32.0</b>
<b>Non-pooled Assets</b>			
Hedge Funds	158.0	6.4	7.0
Tactical Allocation Portfolio	273.1	11.0	11.0
Property (Private Markets)	146.3	5.9	4.0
Private Equity (Private Markets)	200.2	8.1	8.0
Local/ Impact (Private Markets)	79.3	3.1	4.0
Infrastructure (Private Markets)	124.7	5.0	8.0
Private Debt (Private Markets)	52.6	2.1	3.0
Timber/ Agriculture (Private Markets)	14.1	0.6	0.0
Cash & Risk Management Framework	626.3	25.2	23.0
Cash	79.6	3.2	0.0
<b>Total Non-WPP Assets</b>	<b>1,754.3</b>	<b>70.6</b>	<b>68.0</b>
<b>Total Assets</b>	<b>2,484.5</b>	<b>100.0</b>	<b>100.0</b>

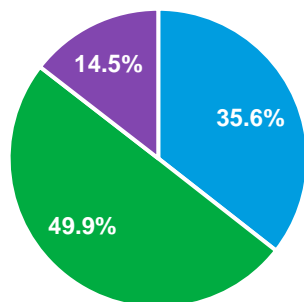
Source: Investment Managers. Totals may not sum due to rounding.

Note: Cash represents cash in the Trustee Bank Account. Pooled assets relate to assets invested via the Wales Pension Partnership.

\*Includes 5% allocation to Sustainable Equity. More information on section 6.7.

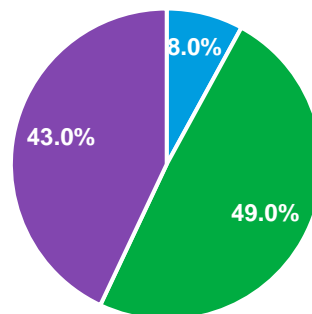
## 6.6 Geographic Splits

**Total Fund Geographic**



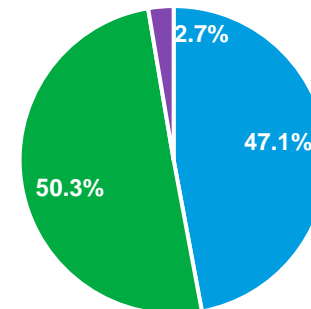
■ United Kingdom ■ Global Developed  
■ Emerging Market

**WPP Funds Geographic Split**



■ United Kingdom ■ Global Developed ■ Emerging Market

**Non-WPP Funds Geographic Split**



■ United Kingdom ■ Global Developed ■ Emerging Market

*Source: Investment Managers. Totals are approximate based on a high level breakdown of assets under management as at 31 March 2022.*

The above charts demonstrate the geographic splits of the current assets under management for Clwyd Pension Fund as at 31 March 2022.

The Fund's current assets invested via the Wales Pension Partnership was 32%, leaving 68% of assets invested outside the pool. Within the Fund's pooled fund allocations, c. 8% of assets are invested within the United Kingdom, whilst c. 49% and c. 43% of assets are invested in Global Developed Markets and Emerging Markets, respectively.

Within the Fund's Non-pooled fund allocations, c. 47% of assets are invested within the United Kingdom, whilst c. 51% and c. 3% of assets are invested Global Developed Markets and Emerging Markets, respectively.

Geographical splits provided are based on a high level breakdown of assets under management as at 31 March 2022.

**6.7** Within the Fund's allocation to Global Equity there is an underlying 5% strategic allocation commitment to sustainable equity to support the Responsible Investment Policy. This allocated is currently invested in the BlackRock World ESG Equity Fund.

## Private Markets

**6.8** The Fund has always been committed to making responsible decisions and acting in a responsible manner. In 2012, the Fund were engaged with managers on matters pertaining to ESG by sending out surveys to all the private market managers on such matters. In 2017, the Fund had a sustainability policy in place which was well before any formal requirement for such. The Fund at the time supported investments with strong sustainability / impact focus and increased its allocation to infrastructure from 4% to 8%, with a clean energy emphasis. The Fund also wrote to all private equity and real asset managers to determine how aligned the current investments were to the United Nations' Sustainable Development Goals (UNSDG).

**6.9** Clwyd have a strategic target to allocate 4% of their total portfolio to Local/Impact investments within private markets. Outside of this specific Local/Impact bucket, Clwyd also endeavour to make impact-focused allocations within their other private markets asset classes (Private Equity, Private Debt, Infrastructure and Real Estate) where possible, subject to the availability of investable opportunities in the market.

From 2006 to March 2021, the Fund had committed £141.8m to Impact focused investments. During the period of 31 March 2021 – 31 March 2022 the Fund has substantially increased its commitments to Impact focused portfolios within its Private Market mandates, allocating a further £102m across 5 additional commitments. These commitments are as follows:

Private Market Manager	Fund Name	Capital Committed (£m)
Capital Dynamics	Clwyd Clean Energy Wales	50
Brookfield Asset Management ("Brookfield")	Brookfield Global Transition Fund ("BGTF")	12
Copenhagen Infrastructure Partners	Energy Transition Fund I	17
Circularity Capital	European Growth II	10
Generation Investment Management	Generation IM Sustainable Solutions Fund IV	13

Further details on the 5 commitments are given in Principle 7.

**6.10** When making private markets commitments, the Fund receives a Research Report from Mercer on all potential commitments. In these reports, each fund is given an ESG score and there is a section of the report dedicated to ESG. Clwyd takes these ESG scores into account when deciding whether or not to commit to a particular private markets manager.

**6.11** The Fund takes a long-term view with regards its investment and funding strategies, given the long-term nature of the payments due to beneficiaries over multiple decades. The Fund's primary investment objective therefore is to achieve sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an on-going basis, whilst maintaining an appropriate balance between long-term consistent investment performance and the funding objectives. This means that the Fund inherently takes a long term view to investing in order to align its investments with its long term liabilities.

**6.12** The Fund's strategies are decided at the Pension Fund Committee which has scheme member and employer representation. Members of the Pension Board also have the opportunity to feed into the investment strategies as they participate in Pension Fund Committee meetings. Further to this, the ISS and FSS are shared with all employers a part of the consultation.

**6.13** Clwyd Pension Fund were instrumental in driving the addition of a co-opted member on to the Joint Governance Committee to ensure that there is scheme member representation at the body carrying out engagement on behalf of the Fund.

**6.14** The Fund's Communication Strategy can be found here: <https://mss.clwydpensionfund.org.uk/home/investments-and-governance/strategies-and-policies/>. The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

**6.15** Effective communication promotes the LGPS as a benefit, therefore reducing the impact of misleading media information.

**6.16** The Local Pensions Board found that 60 people were viewing the website in "Welsh" and have therefore added an option to view the communication strategy in "Welsh". Members have subsequently been made aware of this option.

**6.17** The Fund's overriding objective in relation to communications are to:

- Increase awareness and understanding of the Scheme and provide sufficient information so stakeholders can make informed decisions.
- Communicate in a clear, concise manner.
- Ensure it uses the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.
- Look for efficiencies and environmentally responsible ways in delivering communications through greater use of technology and partnership working.
- Regularly evaluate the effectiveness of communications and shape future communications appropriately.

In relation to member communications, the Fund want the engagement activities to be to:	In relation to employer communications, the Fund want the engagement activities to be to:
<ul style="list-style-type: none"><li>• Increase awareness and understanding of the benefits of the pension scheme and how it works.</li><li>• Encourage members to take ownership of their pension and understand the broader benefits of the pension scheme.</li><li>• Maintain and build positive member experiences along every member's journey, wherever they are on their journey.</li><li>• Reduce the need for face-to-face meetings and phone calls.</li></ul>	<ul style="list-style-type: none"><li>• Increase awareness and understanding of the information required by the Fund from employers.</li><li>• Encourage employers to take ownership of the data and help their employees understand the broader benefits of the pension scheme.</li><li>• Maintain and build positive relationships with employers regardless of size or pensions expertise.</li><li>• Make the management of the Fund more efficient for both the Fund and employers.</li></ul>

**6.18** The Fund communicates with its members via several methods, including, but not limited to the below, the Fund's website and Annual reports are the two main communication channels for updating members on the Funds stewardship and investment activities:

Communication Method	Description
<b>Website</b>	<p>The Fund's website <a href="https://mss.clwydpensionfund.org.uk/">https://mss.clwydpensionfund.org.uk/</a> is available to everyone. It contains information about the Fund and the LGPS. Members are able to download scheme literature and forms. More detailed information on the scheme can also be obtained on the national LGPS website at <a href="https://www.lgpsmember.org">https://www.lgpsmember.org</a></p> <p>Clwyd Pension Fund's website has to adhere to national standards regarding accessibility to the website and how the content is structured.</p>
<b>Member Self Service (MSS)</b>	<p>Member Self Service is available to the Fund's scheme members. It allows members to log into a secure web area to view information held on their Fund record. Some of the facilities available to members include: ability to update their own personal details, update death grant expressions of wish, calculate retirement estimates and review Annual Benefit Statements online. Electronic communications are issued directly to scheme members via the Member Self Service facility; these are generally via an email alert directing the member to log into their Member Self Service to view the relevant information.</p>
<b>Annual Benefit Statement</b>	<p>These statements are distributed annually to all active and deferred scheme members. These statements are issued to members' via their Member Self Service accounts and are downloadable from there. Paper statements are only issued to home addresses by member request.</p>
<b>Generic Newsletters</b>	<p>The Fund issues a periodic newsletter called Penpal to contributing members, bringing to their attention information such as changes to scheme rules, and including important Facts &amp; Figures from the Annual Report. This is issued once a year.</p> <p>The Fund also sends a newsletter once per year to its pensioners entitled Clwyd Catch Up. This is usually sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits.</p>
<b>Annual Report</b>	<p>The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment principles, funding strategy, risk, governance, audit and administration. It is available on the Fund's website.</p>

**6.19** To achieve the communications objectives as set out on the previous page the Fund has launched several initiatives and highlighted the key tasks it will undertake as part of these initiatives as shown below and the following page:

The Initiative	The Task
<p><b>Improve member experience and enhance self-service</b></p> <ul style="list-style-type: none"> <li>• Agree communications strategy.</li> <li>• Provide access to information to enhance self-service for members.</li> </ul>	<ul style="list-style-type: none"> <li>• Finalise statement of engagement principles.</li> <li>• Improve member understanding.</li> <li>• Track emails and calls to Administration team - possible introduction of telephone IVR (Interactive voice recognition).</li> <li>• Adopt Pathfinder approach for MSS to help improve member self-service and reduce 121's.</li> </ul>
<p><b>Identify smart ways of working on the communications</b></p> <ul style="list-style-type: none"> <li>• Understand which communication projects are labour intensive and what causes the disproportionate effort.</li> <li>• Start with a blank canvas and question why things are done the way they are.</li> <li>• Understand what members want communication on and how</li> </ul>	<ul style="list-style-type: none"> <li>• Review of hours spent on each communication project.</li> <li>• Identify ways to reduce effort producing communications.</li> <li>• Consider shorter more frequent communications to promote self-service.</li> <li>• Consider feedback mechanisms to respond to member views (annual member-specific survey/listening).</li> <li>• Gather informal member feedback – specifically when any communication is sent out.</li> </ul>
<p><b>Simplify language, communicate more concisely</b></p> <ul style="list-style-type: none"> <li>• Mindful of the fact that everything has to be written and designed twice.</li> <li>• Recognise that the words chosen are important.</li> <li>• Keep content items short and use clear, plain language that is easy to understand.</li> </ul>	<ul style="list-style-type: none"> <li>• Plain language review of all communications.</li> <li>• Simplify language, Jargon busting and language review.</li> <li>• Reduce reading age and improve reading ease on the Flesch-Kincaid scale.</li> </ul>

## 6.19 (continued)

The Initiative	The Task
<p><b>Refresh visual identity</b></p> <ul style="list-style-type: none"> <li>• Keep brand consistent with Clwyd look and feel and ensure all communications are consistently in line.</li> <li>• Use visuals and infographics to help members visualise messaging more clearly.</li> </ul>	<ul style="list-style-type: none"> <li>• Review and refresh Clwyd pension branding.</li> <li>• Refresh brand guidelines and style guides.</li> <li>• Review format of communications to consider shorter, more impactful formats.</li> </ul>
<p><b>Broaden delivery channels to members</b></p> <ul style="list-style-type: none"> <li>• Review all delivery channels to members, and look to extend use of MSS and digital communications including video, recognising the ways members consume information are changing.</li> </ul>	<ul style="list-style-type: none"> <li>• Incorporate all channels of delivery into a holistic communications plan.</li> <li>• Consider tools available to broaden delivery channels (e.g. podcasts and videos)</li> <li>• Monitor video and podcast usage.</li> </ul>
<p><b>Develop a segmented approach to engagement</b></p> <ul style="list-style-type: none"> <li>• Embrace the variation of the membership 'journey' and adopt an approach that recognises and supports this by delivering different key messages for different segments/age groups because one size does not fit all.</li> </ul>	<ul style="list-style-type: none"> <li>• Review suitable categories for segmentation of messaging (i.e. age-based communication), particularly around the 4 key stages of pensions communications.</li> <li>• Use a segmented approach for relevant communications and monitor changed behaviours.</li> <li>• Discuss topics that engage a range of member demographics, e.g. 'Can you afford not to be in the Fund?'</li> <li>• Feature warm-up stories in pension newsletters, and in Fund's regular communications channels.</li> <li>• Visual roadmap of moments of truth on the way to retirement.</li> </ul>



# Principle 7

## Investment Approach

**“Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities”**

**7.1** The Clwyd Pension Fund acknowledges that ESG risks (including climate change) present risks to the overall stability of the economy and country, with the potential to impact the members, employers and holdings of the portfolio. Although the Fund is not required to consider the impact of climate change, the Committee believe that consideration of these risks is crucial for the Fund as a long term sustainable investor. As well as creating risks ESG can presents opportunities to make selective investments that achieve the required returns whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

**7.2** The Fund’s Pension Committee believes that ESG (including climate change) risks should be considered on an ongoing basis as a priority and that management of those risks is consistent with the Committee’s fiduciary duty as set out in its investment beliefs. ESG considerations are an integral part of the Fund’s strategy as a long-term investor and will be considered as part of the Fund’s Triennial strategy review which will take place in 2022/2023.

**7.3** The 2022 Responsible Investment Policy will support the Fund’s specific RI aims with the funding and investments specific objectives:

- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Ensure that the Fund’s investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission’s target by 2045
- Promote acceptance of sustainability principles and work together with others to enhance the Fund’s effectiveness in implementing these.

**7.4** As part of its commitment to RI the Fund has undertaken to evaluate and manage the carbon exposure of its investments to assist in ensuring an effective transition to a low-carbon economy. As part of this work, on 10 November 2021 the Clwyd Pension Fund Committee approved a strategy to achieve net-zero carbon emissions from its investment portfolio. This included carbon emissions analysis of the listed equity portfolio to provide a baseline for the Fund. Specifically, the Committee agreed an ambitious target for the investments in the Clwyd Pension Fund, as a whole, to have net zero carbon emissions by 2045, with an interim target of carbon reduction of 50% by 2030. Underlying this headline commitment, the plan also has a number of other key targets as outlined below.

For the Fund as a whole:

- to have at least 30% of the Fund's assets allocated to sustainable investments by 2030 (see principle 4.11 for further responsible objectives within ISS)
- to expand the measurement of the carbon emissions of the Fund's investments to include all assets by the end of 2023.

Within the Listed Equity portfolio:

- to achieve a reduction in carbon emissions of 36% by 2025 and 68% by 2030
- to target at least 30% of the Listed Equity portfolio to be invested in sustainable assets by 2030
- to reduce fossil fuel exposure relating to oil and gas by 70% by 2025 and 90% by 2030
- to reduce fossil fuel exposure relating to coal by 90% by 2025 and 95% by 2030
- to engage with the biggest polluters within the Fund's Listed Equity portfolio as part of an overarching stewardship and engagement strategy, to achieve:
  - by 2025, at least 70% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective.
  - by 2030, at least 90% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective.

The Fund will monitor and report against these targets at least annually, and may review and revise them as appropriate, particularly to ensure that targets and ambitions are in line with national and international developments and initiatives.

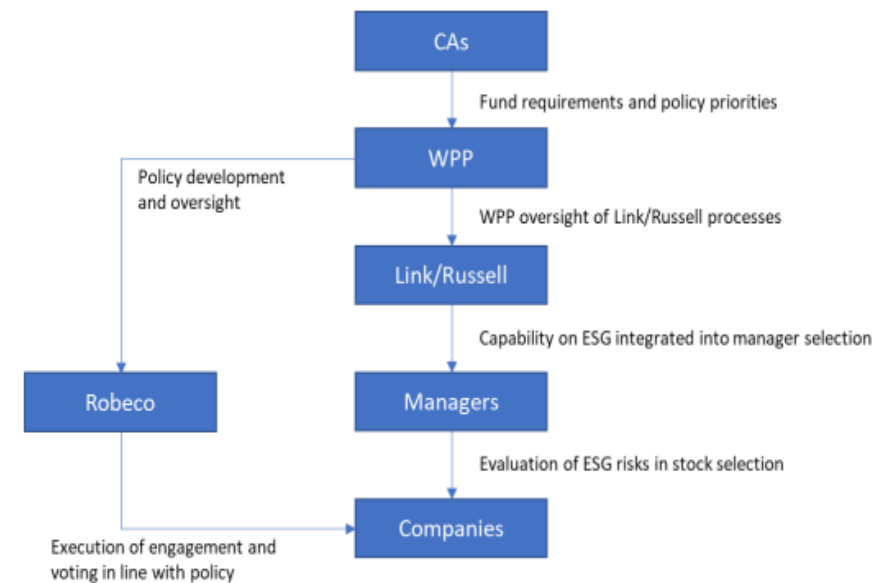
**7.5** The Fund is invested in a wide range of asset classes with different investment managers, but is predominantly moving towards assets that are pooled within the Wales Pension Partnership. WPP currently manage all of the Fund's active and passive equity strategies as well as the Fund's credit strategy.

WPP has partnered with Link, Russell for the implementation of its sub-funds for which Clwyd Pension Fund invest. WPP has also partnered with Robeco for policy development oversight and execution of engagement and voting in within with the agreed policies. WPP are responsible for the development of appropriate funds and policies and the continued oversight of its partners as demonstrated below.

The Fund has worked and continues to work closely with WPP and other Funds within the pool in development and appointment of new funds.

During 2021/22 officers of the Fund were involved in the procurement of Private Market Allocators for the WPP. This involved agreeing the tender specification including a section on ESG. There were a total of 25 specific questions on ESG, examples of which are provided below:

- Is your firm currently a signatory to the UK Stewardship Code?
- What is your firm's ESG philosophy?
- Please describe how ESG is integrated into the investment process.
- Are any external resources or organisations used for ESG analysis?
- Is ESG incorporated into reporting?
- Does your firm have in place policies relating to diversity and inclusion?  
If yes, describe and comment on the extent to which their impact is tracked
- Does your firm have in place policies on human rights and prevent modern slavery? If yes, describe a description and any plans for further development
- Does your firm support and report against TCFD?

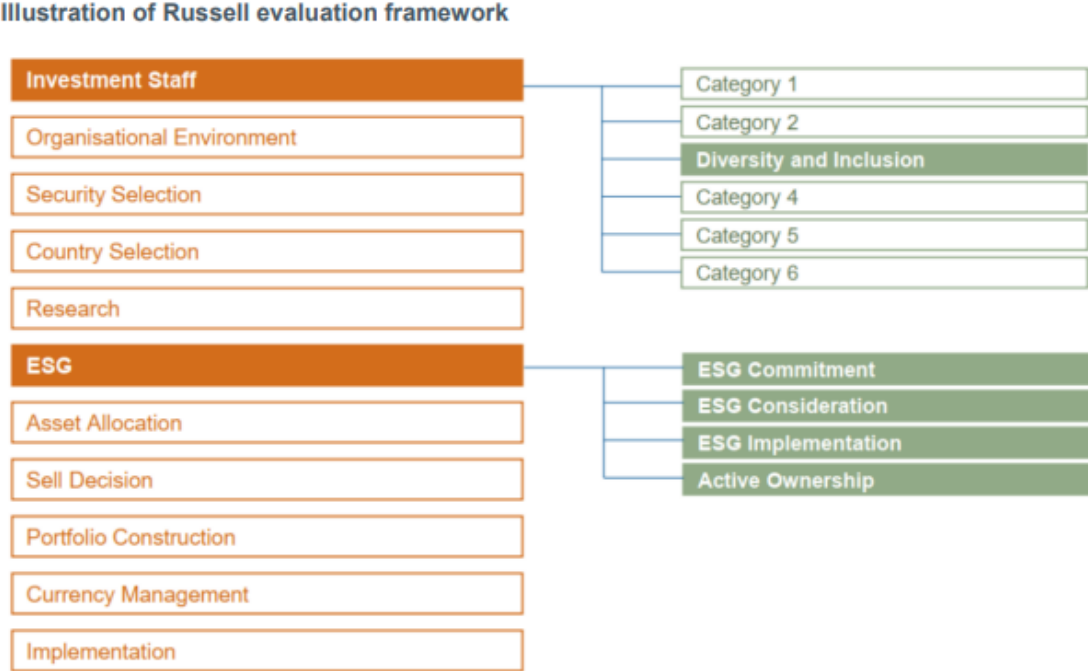


Until the WPP are able to take on the Fund's commitments to Private Markets, the Fund is taking recommendations from its Investment Consultants in the allocation of Private Market funds. The Fund has mandated that priority is given to Impact and sustainable Funds and / or those with a high ESG rating (ESG1 and ESG2) as assigned by the investment consultant following the detailed due diligence process.

**7.6** The Fund has always sought to act with due consideration when it comes to its investments, and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice and the Fund is committed to ensuring its approach remains relevant and appropriate. The Fund’s RI Policy is formally reviewed at least every three years as part of any strategic review of the Fund’s asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise.

**7.7** The Fund has worked and continues to work closely with WPP and other Funds within the pool in development and appointment of new funds. A recent example of this was in the creation of the WPP Sustainable Equity Fund, which is due to be launched later in the year. The Fund collaborated with other WPP partner funds, as well as WPP and Russell in designing a detailed specification for the Fund.

**7.8** The Fund and WPP expect that all investment managers employed within WPP properly consider climate change and other ESG risks in their decision making process. This is also considered by Russell as part of their evaluation of investment managers during the fund structure design and on an ongoing basis through annual reports to WPP. An illustrative example of how these considerations are factored into initial and ongoing evaluation of underlying managers is shown in the illustrative frame work and more information can be found in [WPP’s Stewardship Code](#) submission document.



**7.9** As mentioned in principle 6.9, Clwyd Pension Fund has substantially increased its commitments to Impact focused portfolios within its Private Market mandates. The following tables provide detailed information on these commitments.

Private Market Manager	Fund Name	Capital Committed (£m)
Capital Dynamics	Clwyd Clean Energy Wales	50
Description of fund Impact/ESG		
<p>Clwyd Pension Fund has entered into an agreement with Capital Dynamics to invest directly in Clean Energy projects in Wales. By establishing a Separately Managed Account (“SMA”) with Capital Dynamics, the Fund aims to leave a lasting and positive impact locally and contribute to the UK ambitions to support renewables and the country’s Levelling Up plan.</p> <p>The intention of the Fund is to have a positive impact both environmentally and locally within the communities. The SMA will invest directly into projects in Wales, providing clean energy capacity and offsetting carbon emissions. An integral part of the SMA’s success will be ensuring that the needs of the local communities are met. To further promote the positive impact within the communities, local employees will be hired to carry out the majority of civil works, where possible.</p> <p>An example of one investment opportunity within the pipeline expects c.200 jobs to be created during construction per project, with the potential of c.2,000-3,000 jobs being created for the full portfolio by 2026.</p> <p>Clwyd Pension Fund has committed £50 million into the Fund which will look to source opportunities through recommendation from Capital Dynamics and officers of the Fund. The Fund is looking to invest in 3 to 5 clean energy projects in Wales. Capital Dynamics and Netro Energy (an affiliate of Capital Dynamics) will manage construction and daily monitoring of the Fund. Sample projects which are a potential for the Fund include Solar PV (photovoltaic) and Onshore wind.</p>		

## 7.9 (continued)

Private Market Manager	Fund Name	Capital Committed (£m)
Brookfield Asset Management ("Brookfield")	Brookfield Global Transition Fund ("BGTF")	12
Description of fund Impact/ESG		
<p>BGTF will target Paris Climate Agreement-aligned impact investments in Organisation for Economic Co-operation and Development (OECD) nations across three main pillars: Business Transformation, Clean Energy, and Sustainable Technology. BGTF has a dual objective: to achieve attractive financial returns and to generate measurable environmental change by integrating a focused impact management approach throughout its investment process.</p> <p>The BGTF strategy, Brookfield uses a set of screening criteria in addition to traditional investment return analysis: the 4A Impact Criteria - (i) Alignment, (ii) Additionality, (iii) Accountability and (iv) Avoidance. Through this framework it looks to ensure that the investments: (i) are directly aligned with BGTF's impact thesis, (ii) provide a meaningful contribution to advance climate impact, (iii) are held accountable through the measurement of outcomes, and (iv) avoid contributing to activities that are contrary to the net-zero impact objectives.</p> <p>Upon screening, any potential investments that do not meet the above criteria are not expected to be pursued by BGTF. Furthermore, BGTF will seek to create business plans for each of its investments that are aligned with the Paris Agreement. The business plan will detail the emissions reduction over time to ensure that they are in line with or better than the Science Based Targets initiative models, a third-party resource that estimates the required emissions reductions for each industry/sector.</p>		

## 7.9 (continued)

Private Market Manager	Fund Name	Capital Committed (£m)
Copenhagen Infrastructure Partners	Energy Transition Fund I	17
Description of fund Impact/ESG		
<p>The Energy Transition Fund I ("ETF I") is a first-time fund by Copenhagen Infrastructure Partners ("CIP") that will focus on the second generation of renewable energy and hard-to-abate sectors. Its main focus is decarbonising hard-to-abate sectors such as industrial processes, shipping, fertilisers and aviation fuels with next generation energy infrastructure such as Power to X ("P2X"). ETF I will invest into electrolyzers, ammonia plants, as well as first-generation renewable power generation such as wind and solar to generate green hydrogen, ammonia and eMethanol.</p> <p>ETF I will be an Article 9 Fund under Sustainable Finance Disclosure Regulation (SFDR). ETF I will contribute to a number of the UN Sustainable Development Goals: SDG 6 (affordable and clean energy), SDG 8 (decent work and economic growth), SDG 12 (responsible consumption and production) and SDG 13 (climate action). CIP has strongly integrated ESG considerations on a firm-level as well as in its screening and investment processes. A main element across all of CIP's strategies including ETF I is to have a positive environmental impact through the developed assets.</p>		

## 7.9 (continued)

Private Market Manager	Fund Name	Capital Committed (£m)
Circularity Capital	European Growth II	10
<b>Description of fund Impact/ESG</b>		
<p>Circularity Capital European Growth Fund II ("Fund II") will invest in fast-growing European companies with a circular economy model at the heart of their competitive advantage. These companies will provide solutions to address resource efficiency concerns, whose business models can decouple business growth from intense resource utilisation. Both ESG and Impact factors are implemented in every stage of investing.</p> <p>The first stage of any due diligence is a strict and deep circular economy review, which assesses whether the circular economy model is the source of the company's competitive advantage. From this, it is clear that Circularity perceives ESG concerns as a way to create value rather than only to mitigate risk. Circularity uses a number of well-established impact measuring approaches, including alignment against UN SDGs, as well as the Impact Management Project's five dimensions of impact framework and the Impact Reporting and Investment Standards (IRIS) key performance indicators (KPIs).</p>		
Private Market Manager	Fund Name	Capital Committed (£m)
Generation Investment Management	Generation IM Sustainable Solutions Fund IV	13
<b>Description of fund Impact/ESG</b>		
<p>Generation IM Sustainable Solutions Fund IV ("Fund IV") invests in growth-stage businesses with proven technology and commercial traction, run by mission-driven management teams. The strategy will focus on the three following primary areas: planetary health (low carbon solutions transforming mobility, food, energy and enterprise), people health (healthcare and sustainable consumer) and financial inclusion (supporting access to finance and the future of work).</p> <p>Generation considers sustainability concerns across the investment process, including sourcing, due diligence, as well as value creation. Generation is aiming for net zero emissions across all strategies by 2040. It is also committed to achieving net zero emissions in its own business on the same timescale.</p>		



## Principle 8

### Investment Approach

#### **“Signatories monitor and hold to account managers and/or service providers”**

**8.1** Clwyd Pension Fund actively monitor all underlying managers and service providers to ensure that they are delivering the services as expected. The Fund believe this is an effective way of monitoring all parties and is necessary in promoting good stewardship practises. Monitoring is measured through a number of methods explained below.

**8.2** The Fund monitors its underlying managers through regular catch-ups either in person or virtual and also through the Wales Pension Partnership. The Head of the Pension Fund, Philip Latham also completes annual review meetings with all service providers including, but not limited to, the Fund’s Investment Consultant and Independent Advisor. Further information is given below on how the reviews are completed.

**8.3** The Fund monitor its investment consultant, Mercer, through regular monthly investment day meetings. Mercer provide quarterly performance reports which summarise individual manager performance and total Scheme performance against their respective benchmarks. Mercer also provide fund and ESG score ratings where available to each of the strategies within the portfolio, (including new private market mandates) and provide the latest manager research available covering items such as manager updates, business updates or general information. In addition, Mercer also provide economic reports which summarise the latest market information. In conjunction with the Tactical Asset Allocation (TAA) portfolio, Mercer provide a monthly report covering the latest position. These reports support the regular monthly investment day meetings where officers discuss the latest position and take active decisions on the portfolio. Where Mercer and/ or officers of the Fund have concern over any of the underlying managers, these managers are investigated and if the outlook does not look positive for the fund/s in question, these would be removed from the portfolio either partial or in full.

**8.4** In compliance with “The Investment Consultancy and Fiduciary Management Market Investigation Order 2019” (the order) the Fund established a list of strategic objectives for its investment advisors, Mercer. The objectives may be revised at any time but are reviewed at least every three years, and after any significant change to the Fund’s investment strategy and objectives. The Fund monitors adherence to the objectives annually and engage with Mercer to discuss areas that are working well, and areas of concerns. Examples of the objectives the Fund monitors Mercer against are shown below.

The Fund monitors Mercer against several objectives which form the “Overall Objective”, including:

- Alignment of services with Overall Objectives
- Investment Strategy Objective
- Investment Strategy Statement
- Responsible Investment Objective

- Investment Manager Selection Objective
- Implementation Objective
- Tactical Asset Allocation Portfolio
- Monitoring Objective

## 8.5 Aon Evaluation

The Fund regularly reviews the Aon (the Independent Advisor), scoring 1-5 on several objectives, 1 being substantial improvement required and 5 being consistently outperforms the required objective. The Fund scores the provider on a list of objectives which cover a broad range of topics including:

- Governance objectives
- Tender requirements
- Resource, budget and timeliness

The evaluation process takes place across all service providers to ensure that the Fund keeps all service providers accountable for deliverables and addressing areas of improvement required.

**8.6** Fund officers regularly engage with the underlying investment managers via email, video conferencing and face-to-face meetings. Over the 12 months to 31 March 2022, the Fund's officers have engaged in some form with all managers. Investment managers include Russell, Man Group, BlackRock, Insight etc. In doing so, this keeps the Fund up to date with the latest information provided by the managers and allows the officers to highlight and query any issues they may have in regards to performance or the overall running of the funds.

### Example of officer engagement

Most recently, the Fund's officers have been engaged with Man Group in regards to an allocation of Cryptocurrency within the Macro strategy of the Fund. Due to the Fund's mandate going through the Bank of Ireland (BOI), BOI don't have a view on investing in crypto at the time, therefore, Man Group will have to take out the Macro sleeve out of Fund's portfolio in the interim and re-distribute across the other strategies e.g. Alpha, Evolution etc. As a result, the Fund's officers queried the performance of the Fund without the Macro strategy and are looking into the best course of action going forward.

**8.7** In 2022, the Fund has in consultation with Mercer, developed a monitoring template which it will use to monitor all of its Private Market managers going forward. The template specifically picks up information from the managers on ESG and Impact, including:

- Does the manager have a Sustainable Investment Policy?
- Is the manager doing anything to contribute to net zero or to a specified carbon emissions reduction target?

- Impact/ESG considerations that will help with TCFD and TNFD reporting
- Is the fund (or any of the underlying investments) aligned with any of the SDGs? Explaining which ones.
- Are the funds subject to the Sustainable Finance Disclosure Regulation? If so, please advise whether the fund is categorised as Article 6, Article 8 or Article 9 under the SFDR?

**8.8** WPP's selected investment managers such as Russell Investments provide monthly valuation statements and quarterly performance reports for the underlying funds. WPP hold regular business update meetings with clients to discuss updates on pooling and discuss any new developments such as new funds coming to into the pool. Officers are in regular communication with WPP and play an integral part in the feedback of existing and upcoming mandates, as well as covering all aspects of Fund management. Further to the above the Fund also receive a Voting and Engagement Report from Robeco and a Responsible Investment & Climate Risk Report from Hymans Robertson.

**8.9** Managers appointed through the pool report to the Joint Governance Committee (JGC, see diagram in 2.12) on a quarterly basis. Each mandate within the pool provides the JGC with updates on the performance, stewardship and ESG. Further to this, Cllr Ted Palmer, Chair Clwyd Pension Fund Committee (and currently Vice Chair of the JGC), attends every JGC in which service providers such as Robeco and Northern Trust attend to report on quarterly activities including stock lending, voting and engagement. This information is reported in the private section of the JGC.

## Principle 9

### Engagement

#### **“Signatories engage with issuers to maintain or enhance the value of assets”**

**9.1** The Fund’s officers engage with the WPP and its appointed manager, Russell, on a regular basis for updates on performance, manager selection, market information and engagement activities. The Fund’s Officers report to the Pensions Committee quarterly covering the performance of the Fund and its underlying managers as well as all other aspects of the Fund including items such as responsible investment.

**9.2** Clwyd Pension Fund believe in the benefit of engagement on a wide range of topics with companies and has therefore delegated all voting rights to the Wales Pension Partnership, who in turn, have appointed Robeco to undertake engagement on its behalf. Robeco place particular focus on six key areas when engaging with companies, these are identified in Principle 12.

**9.3** Robeco’s Engagement Policy is updated annually, or more frequent if required. Robeco have a dedicated team of engagement specialists and voting analysts who work closely with the sustainable investment research analysts and portfolio managers, focussing mainly on financially material ESG issues.

**9.4** Robeco carry out three types of engagement, including corporate engagement, value engagement and enhanced engagement.

**9.5** Value engagement focuses on long-term financially material ESG opportunities and risks, with the objective of creating value for investors through improved corporate governance and sustainable conduct. Enhanced engagement is covered in Principle 11, along with an example of voting escalation.

**9.6** Robeco’s active ownership program covers several asset classes and geographies. In some circumstances, engagement may differ for equity and fixed income portfolios. For example, engagement for credit portfolios are likely to be focused on downside ESG risks whereas engagements for equity portfolio are more likely to focus on both ESG risks and opportunities and or shareholders rights. Robeco note that the enhanced engagement program does not differentiate between investment styles or asset classes.

**9.7** Robeco prioritise engagement by focusing efforts on a select group of companies on the most material ESG factors and themes. The Active Ownership team at Robeco select four to five new engagement themes each year for the value engagement program. The themes focus on both financially material topics that address ESG issues in a variety of investable areas as well as adverse sustainability impacts. Each theme focuses on 10-15 companies and typically runs over a three-year period.

**9.8** To ensure relevant engagement case selection, Robeco work collaboratively with other institutional investors in join initiatives such as Climate Action 100+.

Robeco actively engages with company's on behalf of the Fund to promote discussion around Net Zero, Decarbonisation, Capital Alignment, Climate Change Policy, Climate Change governance and TCFD disclosures. Over the period in question, Robeco have been actively engaging with companies on such matters, examples of which are provided below. For confidentiality reasons, all examples have been anonymised at the request of the provider.

<b>Firm 1</b>	
Activity:	Collaborative engagement calls
Relevant Objectives:	Net Zero Ambition, Net Zero Targets, Decarbonisation, Climate Change Policy, TCFD Disclosures
<b>Activity Description:</b>	
Engagement was conducted with the firm to discuss the firms long-term emissions and reduction targets and its net zero ambition by 2050. The immediate emission reduction targets that the company has set for 2025 and 2030 do not currently align with a 1.5C scenario. Areas where the firm scored poorly was on its climate policy engagement and aligning its capital allocation to a 1.5C scenario.	
<b>Outcome/ Status:</b>	
The firm has committed to setting emissions reduction targets that are aligned with a below-2C scenario by 2030. Although this along with other commitments are not aligned with the 1.5C scenario, they are ambitious considering the pace of decarbonisation entailed, therefore representing a genuine attempt to reduce emissions. During engagement the firm also noted they will be committing to validating their new targets under the Science-Based Target Initiative (SBTi). Overall, the efforts in regards to climate strategy are positive, engagement continues to track progression of the firm.	

<b>Firm 2</b>	
Activity:	Correspondence on upgraded InfluenceMap score
Relevant Objectives:	Climate Accounting, Climate Change Policy, Decarbonisation, Net Zero Ambition, TCFD Disclosures
<b>Activity Description:</b>	
Robeco engaged with the firm to discuss the firms score under the Climate Action 100+ Net Zero Benchmark. The firm had seen much improvement in its scores. During the engagement, Robeco discussed the firms Sustainability Report which showed that the firm had announced new targets and further disclosures which were not yet reflected in its score. The new targets include scope 1 and 3 emissions targets related to the generation and sale of electricity.	
<b>Outcome/ Status:</b>	
The firm continues to take significant steps to strengthen further their emissions reduction targets. The company are also looking to develop the a climate lobbying policy and install a task force that can oversee all lobbying activities and their alignment with the goals of the Paris Agreement based on the firms methodology developed. Overall, positive progress has been taken on climate change objectives, engagement continues to track progression of the firm.	

**9.9** In selection of Robeco's quarterly enhanced engagement cases, Robeco screen news flows for breaches of the United Nations Universal Declaration of Human Rights, the International Labor Organization's (ILO) labour standards, the United Nations Guiding Principles for Business and Human Rights (UNGPs), the United Nations Global Compact (UNGC) and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

Robeco screens portfolio holdings on:

- 1) validation of a impact on stakeholders or the environment of the UN Global compact principles or OECD Guidelines
- 2) the severity of the breach
- 3) the company's responsibility for and management of the issue.

For each enhanced engagement, SMART (Specific, Measurable, Attainable, Relevant, Time-based) engagement objectives are defined. Remediation is a key objective for enhanced engagement in all cases. The process for enhanced engagement theme selection is a formal part of Robeco's exclusion policy.

**9.10** Robeco provide WPP a confidential engagement report on a quarterly basis, which provides detailed activity at an individual company contact level, including the topic, engagement objectives and overall status of each engagement for that period. Whenever Robeco engages with a company, such as meeting with management, chair of boards, or writing letters to raise concern full information is documented in the confidential engagement report. Examples of engagement conducted by Robeco are provided on the next page. For confidentiality reasons, all examples have been anonymised at the request of the provider.

**9.11** Examples of Robeco engagement:

Area of business:	Food Industry
Activity:	Plastic Recycling
Relevant Objectives:	Industry collaboration, Responsible Lobbying for Regulatory Change, Plastic Recycling, Innovation Management
<b>Activity Description:</b>	
Robeco engaged with the firm to discuss its Sustainability Report and discussed targets set on Plastic Recycling, Harmonization and Innovation. Robeco has ongoing engagement with the firm and has participated in a number of conference calls and reviewing the firms 'Corporate Plastic Pollution Scorecard' from 'As You Sow', which is a non-profit foundation chartered to promote corporate social responsibility through shareholder advocacy and a renewed research house. The firm came in second place with a rating of C+. This score coincides well with the firms ambitious goal setting. In their latest call with Robeco they explained how they prioritize a holistic approach to shifting towards 100% of recyclable or reusable packaging and the reduction of virgin plastics. Throughout Robeco's engagement the low average level of recycled content of their packaging has been challenged.	
<b>Outcome/ Status:</b>	
Over the duration of the engagement Robeco have challenged the company on their low global average level of recycled content in their packaging which was 2%; this has now risen to 4%. In December 2021, the firm confirmed that they have established a five pillar approach to shifting towards 100% recyclable or reusable packaging and the reduction of virgin plastics. Following this Robeco closed engagement with the firm, due to the positive success of the company surrounding their corporate leader status.	

Area of business:	IT Company
Activity:	Two collaborative engagement letters and conference call
Relevant Objectives:	Stakeholder Engagement, Due Diligence, Policy and Guidelines, Governance
<b>Activity Description:</b>	
<p>In July 2021, Robeco collaborated with other investors in writing a letter to the company focused on the 2020 Ranking Digital Rights Corporate Accountability Index (RDR Index) released in February 2021. Robeco requested the company to take stronger action to address governance and human rights risks and highlighted the main RDR recommendations for the company which included the adoption of a human rights framework for developing and using algorithms and publishing more information on the scope of its human rights impact assessments related to these technologies.</p> <p>Robeco discussed the investor letter with company's Vice President and Deputy General Counsel who leads the company's human rights efforts. Robeco asked how the company's commitment to human rights is reflected in their Responsible AI Principles and due diligence processes. The company explained that its human rights team and the Office of Responsible AI is deeply engaged with the engineering teams.</p> <p>The company focuses on the human rights issues that they deem most material to AI, which are privacy, freedom of expression and discriminatory effects. The company has a 'sensitive uses panel' in place that meets on a weekly basis to perform a human rights sensitivity analysis on products involving AI. The company ensured us that human rights are at the core of their approach and that, in their opinion, it is semantics when talking about ethics, responsible AI or human rights. Robeco explained that they are looking for a systematic human rights program and considerations and that they would like to receive further evidence of that. Earlier in 2021, Robeco joined an investor group focused specifically on the human rights risks of facial recognition technology. This AI-powered technology can have severe human rights impacts and the aim of the investor collaboration is to better understand how companies manage and mitigate potential human rights risks linked to this technology. In November Robeco collaborated on a letter to the company asking about the type of facial recognition products and services they offer, the associated governance framework that they have put in place around this technology and the human right risk assessment framework and remedy procedures associated to the design, development, sale and use of the above products/services. The company followed up on 15 December with an offer for a conference call and a list of resources that Robeco will review at its investor group.</p>	
<b>Outcome/ Status:</b>	
<p>The company is open to discuss Robeco's engagement objectives but more research is needed before further changes to the status of the engagement objectives can be made. Robeco continue to report positive progress on the 'Policy &amp; Guidelines' and 'Due Diligence' objectives.</p>	



Area of business:	Agriculture
Activity:	Call and Engagement Report
Relevant Objectives:	Sustainability Reporting, Food Security Impact Assessment, innovation Management, Public Private Partnerships
<b>Activity Description:</b>	
<p>Following the publication of the company's 2020 sustainability report Robeco noted that the company has made positive developments in regards to the content and structure of their reporting. The report described clear links between their projects and their SDG's, whilst also increasing disclosure around operational ESG data and the sustainable impacts of their products on farmers. The firm have new agricultural practices, including planting techniques, fertilization and crop protection with 2500 farmers in 11 villages. This resulted in farmers increasing their total earnings by nearly £1.3 million in 2020. Robeco encouraged the company to provide more granular disclosure on the impact of their products and their work in low and middle income countries, which was taken positively by the company. The company are working on a formal materiality assessment to identify ESG priorities for their stakeholders. For the first time this year the materiality assessment was conducted by a third party and has been used as the basis for this year's sustainability report. The assessment highlighted product outcomes, disclosure and transparency and social performance as key priority areas.</p>	
<b>Outcome/ Status:</b>	
<p>The company has linked concrete initiatives and programs to the SDG's, including zero hunger. Therefore Robeco are closing their engagement objective in relation to "Sustainability Reporting". Disclosure on innovation management has improved in the recent years, providing more evidence on how the company integrates food security concerns in research and development (R&amp;D) priorities. In April 2021, the company explained how their R&amp;D expenditures have been targeted at developing products for emerging markets as well as how stakeholder feedback and priorities has been integrated into the innovation process. Robeco has closed their engagement objective "Innovation Management". Robeco also believes that the company has a efficient strategy to access smallholder farmers and build up a robust presence in food insecure markets and have closed engagement relating to "Public Private Partnerships".</p>	

Area of business:	Garment Industry
Activity:	Conference Calls, Engagement Reports
Relevant Objectives:	Living Wage, Policy, Transparency, Stakeholder Engagement, Purchasing Practices, Remediation Mechanisms, Monitor Performance
<b>Activity Description:</b>	
Robeco highlighted that the company provided little evidence to estimate the difference between wage levels provided by suppliers and applicable living wage estimates. In October 2021, Robeco conducted a final assessment of the company's disclosures to evaluate their overall progress on advancing living wages. The company received Robeco's highest score in the annual living wage assessment. It is ranked by Robeco at the higher end of the "Maturing" category, implying that it identified the payment of a living wage as a salient issue and considers it important for its wider strategic intent. The company collect wage data from their suppliers and compare this against living wage estimates. Almost 30% of their global strategic factories are covered by this analysis and they now use the FLA wage dashboard for this assessment.	
<b>Outcome/ Status:</b>	
Robeco believe the firm has sufficiently demonstrated their commitment to improve wage levels across the supply chain and close the overall dialogue as effective.	

**9.12** Robeco's Engagement Policy is fully compliant with the requirements of the European Shareholder Rights Directive II (SRD II). Full details of Robeco's Engagement Policy can be found in the [Robeco's Stewardship Policy](#). WPP assets form part of this wider engagement.

**9.13** Examples of engagement activities over the 12 months to 31 March 2022 that were reported to the Clwyd Pension Fund Committee include:

- WPP released a statement to all asset owners in regards to ownership of Russian investments. Please see Principle 10.3 for details.
- Officers continually engage with the underlying fund managers which the Fund invests in on a regular basis, via email, phone, online video or face to face meetings.

**9.14** Robeco's latest full stewardship report submission can be found here: [Robeco Stewardship Report](#). Robeco will report against the stewardship code on an annual basis.

**9.15** As previously mentioned, the Fund is a member of LAPFF. "LAPFF promotes high standards of corporate governance to protect long-term of local authority pension funds" (Source: LAPFF). LAPFF currently has over 80 members with assets exceeding £350bn, LAPFF engages directly with companies with the aim to affect change. Further information on the LAPFF can be found here: <https://lapfforum.org/about/>

# Principle 10

## Engagement

### **“Signatories, where necessary, participate in collaborative engagement to influence issuers”**

**10.1** Clwyd Pension Fund participated in the development of the Wales Pension Partnership to pool the investments of the 8 Welsh LGPS funds. The Fund also proactively engaged with WPP in setting WPPs Responsible Investment (RI) policy and objectives. Fund officers requested an active sustainable equity sub-fund to be considered as part of the pool, to which the WPP have now considered and are in the process of creating. The Fund has been actively engaged with all parties involved including WPP and Russell Investments, in the development of the sub-fund and is on course to become available later in 2022. The Fund along with other constituents of the WPP are committed to collaborating and working together to further develop investment solutions that meet the climate objectives and commitments of all the Constituent Authorities.

**10.2** As a member of the WPP Clwyd Pension Fund has delegated all voting rights to WPP.

**10.3** The Fund actively engaged with the WPP in response to the Russian invasion of Ukraine, and supported the decision made as a collective to divest from all Russian investments as soon as practically possible, following the Russian invasion of Ukraine. The Fund also encouraged its other investment managers to divest from all Russian holdings.

**10.4** The Fund applies the requirements of the Stewardship Code both through its arrangements with its asset managers and through membership of LAPFF. As a member, the Fund has active engagement with its underlying investments. As previously mentioned the Fund has been a member since the early ‘noughties’.

**10.5** The Fund is committed to reviewing its compliance against the latest Code, and as a member of the WPP expects both WPP and the underlying fund managers to comply with the Stewardship Code. Clwyd Pension Fund are pleased that WPP are a signatory of the latest Code.

**10.6** The Fund is an affiliate member of [Pensions for Purpose](#). “Pensions for purpose exists as a bridge between asset managers, pension funds and their professional advisors, to encourage the flow of capital towards impact investment” (Source: Pensions for Purpose, 2022). Officers of the Fund also encouraged the WPP to become an affiliate of Pensions for Purpose, to which they were successful.

Debbie Fielder, Deputy Head of Clwyd Pension Fund currently sits on the board for Pensions for Purpose as a Non-Executive Director (NED).

**10.7** The Fund is also a member of the Impact Investing Adopters Forum, which is run by Pensions for Purpose in partnership with the Impact Investing Institute to advance the Principles. As an adopter the Fund has committed to the Impact Investing Institute's Impact Investing Principles – and advancing the impact investing agenda. Detailed information on the principles can be found here: [Pensions with Impact](#).

To remain a member, the Fund has to report on progress and improvement made on the [principles](#) over the year. The Fund will be doing this in November 2022 for the latest year in question. One of the principles that is covered is the appointment of investment consultants and managers with impact integrity. This is an area that the Fund will be reporting on in the upcoming review to highlight the work that is being done by the Fund in collaboration with the Fund's Investment Consultants in identifying impact and sustainable managers with the Private Markets mandate and the priority given towards these sustainable aligned funds.

**10.8** The Fund's officers are actively engaged with and aim to influence for the better groups, boards and committees they sit on. Current officers of the Fund are members of the following:

- Scheme Advisory Board Responsible Investment Group
- LGPS Cross Pool Responsible Investment Group
- WPP RI-Sub Group
- UK Pension Schemes Responsible Investment Roundtable
- GIIN Institutional Asset Owner Roundtable Working Group
- NED Pensions for Purpose (Pro Bono)
- Pensions and Lifetime Savings Association (PLSA) Local Authority Committee.

**10.9** Fund officers receive questions from members, local groups and employers about the Fund's approach to responsible investment, in particular the management of climate risk. During the period in question, Together Creating Communities (TCC) reached out to Fund officers to discuss the Fund's approach on such issues. Also during the year, the Head of the Clwyd Pension Fund engaged with Wrexham County Borough Council (WCBC) surrounding the Funds policy on disinvesting from fossil fuels. The members of the WCBC supported the Fund in its carbon reduction approach. These discussions help reinforce the priority of responsible investment within the Fund's business plan and provides comfort that the Fund's approach has support from wider stakeholders.

**10.10** The Fund invites all employers and member representatives to an Annual Joint Consultative Meeting (AJCM), where the Fund explains its investment approach (including responsible investment) and seeks views and opinions from the audience.

**10.11** Over the 12 months to 31 March 2022, the Fund was invited to speak and participate in several discussions covering items such as impact investing, climate change, levelling up and social impact investing. Examples are provided below.

- **Virtual Panel – Scaling up institutional investment for place-based impact**
  - Deputy Head of the Clwyd Pension Fund was invited in July 2021 to discuss real-life examples exploring best practice on how impact investing is defined, measured and managed, while demonstrating the types of activities that can correctly be labelled as impact investing.
- **Pensions for Purpose – Journey of the Pension Fund including impact investment**
  - Deputy Head of the Clwyd Pension Fund was invited to talk in October 2021 on several matters including but not limited to: local investments, context of local investment in Wales and the Welsh Pool, hurdles of impact investing, carbon reduction opportunities, Welsh pool development opportunities and discussing how “local doesn’t always mean impact”.
- **UN Climate Change Conference (COP26) – Impact Investing Institute – “Pensions with impact – adopting a transitional mind-set for a better future”**
  - Deputy Head of the Clwyd Pension Fund was invited to talk in November 2021 at COP26 in Glasgow. Discussions were had on impact investing; the video of the discussion can be found [here](#).
- **Mercer Private Markets Conference – Private Market Investment**
  - Deputy Head of the Clwyd Pension Fund was invited to talk in November 2021 on several matters such as: diversification within Private Markets, overview of the Fund’s history and allocation to Private Markets, mapping investments to SDGs, opportunities and challenges within impact and local investing.
- **UK Mark Carney Private Roundtable – Energy Transition and Decarbonisation**
  - In December 2021, Fund officers attended the roundtable with Mark Carney to discuss energy transition and decarbonisation and the COP 26 global climate talks and their outcomes.
- **Russell Investments – Digital Summit – Building a climate focused portfolio**
  - Deputy Head of the Clwyd Pension Fund was invited in January 2022 to talk at Russell Investment’s digital summit on building a climate focused portfolio. The discussion looked at the objectives schemes should consider when building a climate response focused portfolio. Including the importance of net zero alignment, sustainable investment options and regulatory considerations such as TCFD.

- **DG Publishing – Levelling Up and the LGPS**

- Deputy Head of the Clwyd Pension Fund was invited to talk on the panel at the LGPS-Live webinar in March 2022. The panel discussed Levelling Up White paper and what it says about the LGPS together with the barriers, challenges and opportunities that investing 'up to' £16bn of LGPS in what looks like 'UK impact' would bring.

- **SG Pensions Enterprise – Maximising Investment Performance and Social Impact**

- Deputy Head of the Clwyd Pension Fund was invited in March 2022 to talk on 'The Practical Barriers to Social Impact Investing'. The panel discussed the obstacles to great investment of this type whether decision-oriented, structural, legal, size-related or through lack of access and availability.

- **LGC Investment Seminar – ESG and Responsible Investment**

- In March 2022, the Head of the Clwyd Pension Fund spoke at the conference to share the experience of the Clwyd Pension Fund.

# Principle 11

## Engagement

**“Signatories, where necessary, escalate stewardship activities to influence issuers”**

**11.1** Clwyd Pension Fund expects its investment managers and Wales Pension Partnership (WPP) to take appropriate action acting on behalf of the Fund when engaging in stewardship activities. This includes ongoing monitoring of current investments and practises on issues which could present a material financial risk to the long-term performance of the Fund, including environmental, social and governance (ESG) factors.

**11.2** Clwyd Pension Fund expects the highest level of monitoring from both investment managers and WPP to allow for any potential issues to be identified in a timely manner and resolved at an early stage.

### Escalation Process

**11.3** Clwyd Pension Fund expects the WPP to escalate any stewardship activities on its behalf with Robeco as noted in our response to Principle 12.

**11.4** WPP regard escalation in relation to engagements as a key aspect of effective stewardship, and have been working closely with Robeco to ensure that escalation is embedded into Robeco’s approach where necessary.

**11.5** Robeco believe that communicating with companies in which WPPs clients invest is a more effective approach than excluding such companies from portfolios, as this allows Robeco to have an influence and make a positive impact. WPP and Robeco consider exclusions as a last resort approach, applicable only after engagement and escalation has been undertaken. WPP look to influence issuers whenever possible.

**11.6** Where initial engagement with a company fails, Robeco implement ‘enhanced engagement’, which includes escalation of dialogue with companies in breach of behavioural norms in areas such as human rights, environmental, labour and corruption.

Enhanced engagement looks to address shortfalls against international codes of conduct in corporate governance, social responsibility, environment and transparency.

If enhanced engagement does not lead to the desired outcome, Robeco and/ or clients of Robeco can then take the decision to exclude the company from selection. Robeco’s enhanced engagement usually runs over a three-year period, during which Robeco engage with the companies.

Further information on Robeco’s engagement can be found in Robeco’s [Stewardship Policy](#) and [Stewardship Report](#).

## 11.7 Examples of voting escalation:

### Case study 1: Lifecycle Management of Mining

Over the period, Robeco initiated a three-year dialogue the third largest producer of copper in the world. Robeco sent the company in question a letter inviting them to initiate a dialogue with them on three areas of engagement, water risk management, tailings dam safety and asset retirement planning. In August 2020 Robeco received a written response from the company explaining their approach to managing these three areas. In September 2020, Robeco had their first call with the company's ESG team where they discussed their written response.

Since September 2020, Robeco have made repeated attempts to resume our dialogue with the company. Robeco have pursued multiple escalation strategies, including sending a letter to the CEO outlining our expectations, supporting a joint investor statement calling for enhanced management across several ESG issues, and sharing Robeco's assessment of the company's performance across Robeco's engagement objectives with concrete feedback on how to improve. While the company's investor relations team has acknowledged receipt of all of this correspondence, they failed to commit to a conference call or break their promise to provide a response in writing to Robeco's requests. Due to the clear unwillingness of the company to engage with Robeco, Robeco are conducting a final assessment of the latest company's disclosures to close this engagement case (December 2021). Robeco assess the company's progress against its objectives as follows. Robeco report positive progress on 'Water Risk Management' in view of the commitments made to identify gaps of their management system against the standards developed by ICMM. Robeco report negative progress on the objective 'Asset Retirement Planning' due to the worsening of disclosures on this topic. Robeco report flat progress on all other objectives: 'Effective implementation of water risks at the asset level', 'Enhance water efficiency and quality', 'Tailings Safety Management', 'Public reporting and global monitoring of tailings storage facilities', 'Phase out high risk tailings dams and reduce the use of tailings dams', 'Financial surety for mine closures', 'Liquidity and accessibility of financial surety'. Robeco closed out the overall engagement with the firm as engagement unsuccessful.



## Case study 2: Social Impact of Artificial Intelligence (AI)

Robeco wrote to the firm in question to address governance and human rights risks. Specifically, they highlighted the need for more human rights policy related to developing and using algorithms, and the improvement needed in its human rights due diligence including the use of human rights impact assessments related to its policy enforcement, targeted advertising, and the development and use of AI. Finally, Robeco requested the company to strengthen its approach and transparency on user rights including opt-out options for data collection and transparency related to how user information is collected from third parties through contractual means.

Robeco requested an opportunity to engage in dialogue with company representative on these issues, but were not met with speed in response. An ESG call for investors was finally set up where questions were asked in advance. Following the meeting Robeco still found it challenging to set up dialogue around the company's overall commitment to human rights and the social impact of AI.

Robeco continue to write to the company reiterating the request for further dialogue and consider additional engagement strategies including filing a shareholder resolution. At the time of writing additional engagement strategies are being considered.

Robeco keep a track of unsuccessful engagements and discuss these with WPP at regular meetings.

# Principle 12

## Exercising rights and responsibilities

### **“Signatories actively exercise their rights and responsibilities”**

**12.1** Clwyd Pension Fund is a long term investor that supports and promotes high standards of stewardship. It is the Fund’s belief that effective stewardship can strengthen and protect the interests of both the Fund and its beneficiaries.

**12.2** As part of the Government’s investment reform, Clwyd Pension Fund has participated in the development of the Wales Pension Partnership (“WPP”) to pool the investments of the 8 Welsh LGPS funds. Whilst all strategic asset allocation and policy decisions remain with the Fund, implementation responsibilities are the responsibility of WPP.

**12.3** Clwyd Pension Fund proactively engaged with WPP in setting WPP’s RI policy and objectives, and is confident that they will enable it to implement its own policies. Clwyd Pension Fund will work with the WPP to develop their policies in the future to ensure they remain relevant and appropriate for the Clwyd Pension Fund.

### **Delegation of voting rights to the WPP**

**12.4** As a member of the WPP Clwyd Pension Fund has delegated all voting rights to WPP; voting rights give shareholders the opportunity and responsibility to engage and promote the participation in the stewardship of companies. Clwyd Pension Fund expects both WPP and the underlying fund managers to comply with the Stewardship Code.

It is the belief of WPP that failing to exercise voting or other rights attached to assets could be contrary to the interest of the beneficiaries of the Constituent Authorities.

**12.5** WPP has appointed Robeco as its Voting and Engagement provider and they are assisting in formulating and maintaining a voting policy and engagement principles that are in keeping with the LAPFF. In addition, Robeco are responsible for implementing the voting policy and reporting on it.

**12.6** Before WPP appointed Robeco and implemented the WPP voting policy, individual managers within Sub-Funds were responsible for voting in line with their own house policy. The implementation of a single policy has ensured that all votes are cast in a consistent manner. This policy does not yet extend to passively managed funds where the passive provider, BlackRock, is currently responsible for this activity.

WPP are looking into the possibility of applying the single voting policy across all equity assets including the passive equity mandate currently run by BlackRock.

## Voting Policy

**12.7** WPP formed an RI-Sub Group in order to support the pool's RI policies and provide ongoing scrutiny of its providers. The group has officer representation from all Constituent Authorities and meets two times a quarter.

**12.8** Following their appointment, WPP worked with Robeco to agree an appropriate voting policy. Rather than developing a tailored portfolio, WPP reviewed Robeco's own policy and took the decision to adopt this as an initial template. WPP's RI Sub-Group took into consideration various approaches in the development of its voting policy, including a "bottom-up" policy. However, the group decided that adopting a house policy as an initial standard would enable the pool to implement a single standard at a faster pace.

WPP will review the [Voting Policy](#) annually to ensure that it remains appropriate.

## Voting Areas

**12.9** WPP recognised the challenge in focusing on all voting activities and therefore in the development of its voting policy choose to place focus on six key areas. These six areas were selected by the RI-Sub Group and are subject to detailed scrutiny. The areas are as follows:

1. Management of Climate Change
2. Climate Risk Disclosures
3. Improving shareholder governance
4. Board diversity
5. Retention and Development of Human Capital
6. Executive remuneration: focusing on long-term outcomes

WPP and Robeco have discussed the six key areas and agreed these will be a key element of the ongoing discussions and scrutiny exercised. Robeco will be proactive in voting on shareholder proposals with a particular focus on the six chosen areas as stated.

## LAPFF alerts and WPP instruction to Robeco

**12.10** As a member of the LAPFF, LAPFF provide alerts when there is a campaign to vote in a certain way. WPP have instructed Robeco to give due regard to all LAPFF alerts, and where Robeco considers appropriate will vote in line with the LAPFF alert. If in the instance Robeco's view differs from LAPFF, WPP will engage with Robeco and request reasons for each event.

## Monitoring voting effectiveness

**12.11** Before WPP implemented its own voting policy, votes were cast in line with the underlying individual managers voting policies. Due to the contrasting nature of each of the underlying manager's voting policies and the focus on implementing a single voting policy, WPP took the decision to not exercise independent scrutiny of voting outcomes ahead of the single policy implementation.

WPP receive quarterly voting reports from Robeco which cover key statistics and information on voting over the period. Robeco has only been voting in line with the agreed voting policy since 1 January 2021.

## Engagement and Voting

**12.12** The Fund requires that its managers report how they voted the shares held within their portfolios. A summary of the voting activities of the managers for 2021/22 is shown in the following table.

Manager	Annual / Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
BlackRock: ESG	274	3,937	3,641	266	29	1
Russell: Global Opportunities	61	704	634	64	5	1
Russell: Emerging Market	19	187	139	35	1	12

## Voting Examples

**12.13** Robeco cover all voting and engagement for Clwyd Pension Fund, examples of votes cast over the 12 months to 31 March 2022 are shown below:

Company:	Booking Holdings
Date of meeting:	26 May 2021
Resolution:	CFO executive compensation
Voted:	Voted against the executive remuneration proposal
Outcome:	The proposal was passed
<p>As a travel platform, Booking's performance has been heavily impacted by the pandemic, which has led them to apply for state aid in the Netherlands and an overall restructuring of the firm. Although the need to retain key executives throughout such a challenging time is evident, Booking's method of retention is questionable. During the past financial year, the CFO has received discretionary retention bonus of USD 10 million additional to his regular long-term pay package. Despite the important role the CFO will play in the upcoming restructuring and his relatively recent appointment of 2018, the overall height of his compensation is not commensurate to a year where the company has faced such economic hardship</p>	

Company:	Unilever Plc
Date of meeting:	5 May 2021
Resolution:	Promote discussion and engagement with all shareholders on climate issues
Voted:	Voted to support the proposal
Outcome:	The proposal was passed
<p>Unilever was one of the first global companies that had voluntarily committed to put its climate transition plans before a shareholder vote. The company explained that the proposal sought to promote discussion and engagement with all shareholders on climate issues. The Company provides thorough reporting concerning its climate strategies and initiatives and has made credible plans to mitigate its climate impacts, including an ambition to achieve net zero Scope 1, 2, and 3 emissions by 2039.</p>	

## Voting Examples (continued)

Company:	Rio Tinto Plc
Date of meeting:	9 April 2021
Resolution:	CEO executive remuneration
Voted:	Voted against the remuneration proposal
Outcome:	The proposal was passed
<p>In light of the Juukan Gorge incident in May 2020, where an expansion of one of the company's iron ore mines led to irreversible damage to a 46,000-yearold Aboriginal cultural heritage site, the company's CEO was fired and his vested LTIP of 2016 adjusted downward by GBP 1 million. However, despite this adjustment the total pay out to the CEO was nearly GBP 1.5 million higher than the previous year. This led many shareholders to question whether the company's downward adjustment was sufficient to account for the serious reputational damage the company incurred in the aftermath of the Juukan Gorge incident for which the CEO was ultimately responsible. The company did not disclose clearly how it arrived at the applied reduction figure, nor did it explain why the CEO was treated as an "eligible" leaver, which means his outstanding equity awards will vest on their normal vesting dates, subject to pro-ration. The height of the remuneration is excessive for a year where the CEO is leaving the company due to the failure to implement an adequate heritage management system.</p>	

## Voting Examples (continued)

Company:	Royal Dutch Shell
Date of meeting:	18 May 2021
Resolution:	<ol style="list-style-type: none"> <li>1 Energy Transition Strategy</li> <li>2 Shareholder proposal set climate-related targets</li> </ol>
Voted:	<ol style="list-style-type: none"> <li>1 Voted to support the resolution</li> <li>2 Abstained from voting</li> </ol>
Outcome:	<ol style="list-style-type: none"> <li>1 The resolution was passed</li> <li>2 The resolution did not pass</li> </ol>
<p>During Shell's 2021 AGM, two important climate-related proposals were on the agenda. Resolution 20 represented an industry first, as Shell put forward its own climate transition plan for a shareholder vote. Resolution 21 was a shareholder proposal on greenhouse gas reduction targets. Robeco supported Shell's proposal for approval of the Energy Transition Strategy (Say on Climate), because in our assessment, the climate plan is currently one of the most elaborate and advanced plans in the oil and gas sector.</p> <p>While supporting the resolution, Robeco recognize that the plan will require updates and further improvements in the coming years. At the AGM, Robeco expressed the desire for Shell to increase pace and to already make significant steps in the near future. This aligns with the progress Robeco have expected and seen from Shell during our engagement under the Climate Action 100+ initiative. Following the AGM and a court ruling regarding its transition plan in The Hague, Shell has already further advanced its plans and ambitions. In addition, a shareholder proposal was filed for Shell to set climate-related targets in the long, medium, and short term. In our assessment, Shell has already set one of the most advanced targets in their sector, and the company should instead focus on implementation in its next steps. Therefore, Robeco abstained from voting on this resolution. Robeco generally support these resolutions when companies have not set robust targets (scope 1, 2, and 3 for long-, medium-, and short-term horizons) and have not presented concrete implementation plans. However, this needs to be balanced with the significant progress that Shell had already shown on the specific asks for the resolution. Shell's own Say on Climate vote received the support of around 89% of votes cast, representing widespread acknowledgement of the strength of its transition plan. Meanwhile, shareholders also voiced their view on the further development of Shell's targets, as the shareholder resolution received 30% of votes in favour.</p>	

**12.14** Robeco provide the WPP with a full breakdown of all votes that are cast over the period, this description, meeting type, management recommendation, proponent and Robeco's vote. In doing so this enables WPP to monitor the activity Robeco is undertaking on behalf of the WPP and compare against the voting principles that are set within the voting policy.

#### **Further Information**

**12.15** Further information on WPP's approach to exercising rights and responsibilities can be found in the latest [Wales Pension Partnership Stewardship Report](#) for the year ending 31 March 2021.

Further information on the WPP and ongoing updates on the WPPs progress can also be found on the WPP [website](#) and [LinkedIn page](#).

#### **12.16 Leadership in stewardship across various asset classes**

As a fund we recognise that the approach to stewardship is typically more developed for listed equity managers. They are expected to fully exercise their voting and engagement responsibilities. However, we also expect manager across other asset classes to exercise their stewardship rights and responsibilities to the fullest extent possible. Below briefly explains some of the key characteristics we expect to see from each of the investment managers looking to demonstrate strong stewardship across various asset classes.

- **Fixed Income:** engagement with issuers can enhance creditworthiness, such as engaging with companies on issues regarding the environment and human rights.
- **Private Equity:** funds typically have significant stakes in companies, meaning that they have significant influence and/or full control over management and decision making.
- **Private Debt:** there is typically less control for investors compared to private equity, but one way of creating influence is to shape the term of a loan to influence the issuer. Recent initiatives have been inclusion of ratchet mechanisms to the borrowing rate linked to key ESG objectives for some loans.
- **Real Estate and Infrastructure:** assets can be enhanced and improved through a 'hands on' approach by enhancing the sustainability characteristics of the assets. Strong ownership positions can also help in terms of active engagement with management (including hiring strong teams) and working with key stakeholders.



## Glossary

Item	Description
Actuarial Valuation	The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
Administering authority or scheme manager	Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.
Advisory Panel (AP)	A group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Head of the Clwyd Pension Fund, Fund Consultant, Fund Actuary and Fund Independent Advisor.
Clwyd Pension Fund (the “Fund”)	The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region.
Clwyd Pension Fund Committee (the “Committee”)	The Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.
Chartered Institute of Public Finance and Accountancy (CIPFA)	UK based accountancy membership and standard setting body.
Department for Levelling Up, Housing & Communities (DLUHC)	Supports communities across the UK to thrive, making them great places to live and work.
Funding Strategy Statement (FSS)	The main document that outlines how we will manage employers contributions to the Fund.
Funding & Risk Management Group (FRMG)	A subgroup of Pension Fund officers and advisors set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Head of the Clwyd Pension Fund, Fund Actuary, Strategic Risk advisor and Investment Advisor.

Item	Description
Financial Reporting Council (FRC)	Regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.
Investment Strategy Statement (ISS)	The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
Local Authority Pension Form Forum (LAPFF)	Is both an engagement partner and forum for member funds to share insights and best practice and to identify opportunities. Promoting specific investment interests of local authority pension funds as asset owners.
Local Government Pension Scheme (LGPS)	The national scheme, which Clwyd Pension Fund is a part of.
Markets in financial instruments directive II (MiFID II)	A European Union (EU) regulatory framework designed to regulate financial markets and institutions and improve protections for investors. It aims to standardise practises across the EU.
Pensions and Lifetime Savings Association (PLSA)	A trade association for those involved in designing, operating, advising and investing in all aspects of workplace pensions.
Pensions for Purpose	Exists as a bridge between asset managers, pension funds and their professional advisors, to encourage the flow of capital towards impact investment.
Private Market Investments	Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments.
Scheme Actuary	A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.

Item	Description
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
Sustainable Finance Disclosure Regulation (SFDR)	Imposes mandatory ESG disclosure obligations for asset managers and other financial market participants (FMP). SFDR aims to bring a level playing field for FMP and financial advisors on transparency in relation to sustainability risks the consideration of adverse sustainability impacts in their investment processes and the provision of sustainability-related information with respect to financial products.
Society of Local Authority Chief Executives (SOLACE)	A leading members' network for local authority government and public sector professionals through the UK.
Tactical Asset Allocation Group (TAAG)	A group consisting of The Clwyd Pension Fund Manager and consultants from Mercer, the Fund Consultant.
Task Force on Climate Related Financial Disclosures (TCFD)	TCFD recommendations provide guidance to all market participants on the disclosure of information on the financial implications of climate-related risks and opportunities so that they can be integrated into business and investment decisions.
Taskforce on Nature Related Financial Disclosures (TNFD)	Builds upon TCFD but acting on behalf of nature. It is a nature-related framework to drive better understanding and reporting of nature-related risks and opportunities.
UK Stewardship Code 2020	Set of high standards for those investing money on behalf of UK savers and pensioners, and those that support them.
UN Principles for Responsible Investment (PRI)	International organisation that works to promote the incorporation of ESG factors into all decision making processes, seeking to build a more sustainable financial system.
Wales Pension Partnership (WPP)	A collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of the eight national Local Government Pension pools. WPP was established in 2017.



[mss.clwydpensionfund.org.uk](https://mss.clwydpensionfund.org.uk)

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