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AGENDA

Committee	PENSIONS COMMITTEE
Date and Time of Meeting	MONDAY, 6 FEBRUARY 2023, 5.00 PM
Venue	REMOTE - TEAMS
Membership	Councillor Weaver (Chair) Councillors Dilwar Ali, Lay, Reid-Jones and Taylor

1 Apologies for Absence

To receive apologies for absence.

2 Declarations of Interest

To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.

3 Minutes *(Pages 5 - 6)*

To approve as a correct record the minutes of the meeting held on 28 November 2022.

4 Funding Strategy Statement *(Pages 7 - 46)*

To approve the Pension Fund's Funding Strategy Statement.

5 Investment Strategy Statement *(Pages 47 - 58)*

To approve the Pension Fund's Investment Strategy Statement.

6 Review of Governance Compliance Statement *(Pages 59 - 70)*

To review the Fund's Governance Compliance Statement.

7 Annual Review of Fund Policies and Strategies *(Pages 71 - 96)*

To review the Fund's Communications Policy, Complaints and Compliments Policy and Pensions Administration Strategy.

8 **Risk Register** *(Pages 97 - 104)*

To consider the Pension Fund's Risk Register.

9 **Wales Pension Partnership and Investment Update** *(Pages 105 - 144)*

To receive an update on the Wales Pension Partnership and the Fund's Investments.

10 **Pension Committee Training** *(Pages 145 - 148)*

To consider the options for the provision of in-house training to Pension Committee Members.

11 **Pension Fund Net Zero Target** *(Pages 149 - 154)*

To consider whether the Fund should have its own Net Zero target and how that journey can start.

12 **Minutes of the Local Pension Board** *(Pages 155 - 164)*

To note the minutes of the Local Pension Board meeting held on 7 November 2022.

13 **Exclusion of the Public**
The following item is confidential and exempt from publication as it contains exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Action 1972. The public may be excluded from the meeting by resolution of the Committee pursuant to Section 100A(4) of the Local Government Act 1972 during discussion of this item.

14 **Minutes of the Investment Advisory Panel** *(Pages 165 - 168)*

To note the minutes of the Investment Advisory Panel meeting held on 18 October 2022.

15 **Urgent Items (if any)**

16 **Date of next meeting**
The next meeting of the Pension Committee is 17 May 2023 at 5pm.

Davina Fiore
Director Governance & Legal Services
Date: Tuesday, 31 January 2023
Contact: Andrea Redmond,
02920 72434, a.redmond@cardiff.gov.uk

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PENSIONS COMMITTEE

28 NOVEMBER 2022

Present: County Councillor Weaver(Chairperson)
County Councillors Lay and Reid-Jones

17 : APOLOGIES FOR ABSENCE

Apologies had been received from Cllr Dilwar Ali.

18 : DECLARATIONS OF INTEREST

None received.

19 : MINUTES

The minutes of the meeting held on 27 June 2022 were agreed as a correct record.

20 : ANNUAL REPORT

A comprehensive outline of the report was provided to Committee after which the Chairperson invited questions and comments from Members. There were no questions on the report.

RESOLVED: To accept and approve the Annual Report appended as Appendix 1 to the report.

21 : RISK REGISTER

A comprehensive outline of the report was provided to Committee. Members were assured that the Local Pension Board had conducted a thorough review of the risk register.

Members were asked to note the current position with regard to recruitment difficulties and the importance of identifying any risks as early as possible. It is important to keep mindful of the situation and watch with interest over the coming year and determine how to mitigate against it.

The Chairperson invited questions and comments from Members.

There were no questions on the report.

RESOLVED: To note the contents of the Risk Register.

22 : WALES PENSION PARTNERSHIP AND INVESTMENT UPDATE

A comprehensive outline of the report was provided to Committee.

The Chairperson noted that in July, the WPP agreed the Sustainable Equity Sub Fund. The Chairperson spoke at the partnership council on behalf of the WPP on its work on decarbonisation. It had been flagged up that the Pension Fund does not have a Net Zero target and whilst many other funds also don't and neither do the WPP, the Chairperson considered it may be something that could be reflected up on over the next year.

The Chairperson invited questions and comments from Members. There were no questions on the report.

RESOLVED:

i. To note the recent developments related to the WPP Investment Pool and the current Fund Valuation
ii. To note the consultation process that will be undertaken for updating the Funding Strategy Statement.

23 : MINUTES OF THE LOCAL PENSION BOARD

Noted.

24 : MINUTES OF THE INVESTMENT ADVISORY PANEL

Noted.

25 : URGENT ITEMS (IF ANY)

No Urgent Items received.

Members discussed training for Committee Members for the forthcoming year.

Members noted that a report on training would be brought to the next committee meeting.

Members considered that training would be better tagged onto scheduled Committee meetings and asked that as much notice as possible is given to members advising them of any training sessions.

26 : DATE OF NEXT MEETING

The next meeting of the Pension Committee is 6 February 2023 at 5pm.

The meeting terminated at 2.20 pm

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CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 6 FEBRUARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4

FUNDING STRATEGY STATEMENT

Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.

2. The Terms of Reference include the review and approval of the Fund's Funding Strategy Statement (FSS). The proposed FSS is attached as Appendix 1 to this report.

Background

3. The Funding Strategy Statement (FSS) sets out how the administering authority aims to meet the regulatory requirements to ensure that funds are available to meet pensions liabilities as they fall due whilst keeping employer contributions as constant as possible.

4. The FSS is normally reviewed every three years as part of the Triennial Valuation following consultation with the Fund Actuary although amendments to the FSS within this three year cycle may be necessary. The administering authority must also consult with "such persons as it considers appropriate" and have regard to guidance published by CIPFA, the Chartered Institute of Public Finance and Accountancy and other regulatory bodies such as the Scheme Advisory Board (SAB).

Issues

5. The FSS was last considered by the Pension Committee at its meeting in November 2021 where amendments to the drafting to include Employer Exit flexibilities and Deferred Debt arrangements where agreed. An updated FSS has been drafted by the Fund's Actuaries, AON, as part of the 2022 tri-annual valuation process and is attached as Appendix 1. As a consequence of the FSS being updated at the end of 2021 the changes proposed in the updated version are limited. The most significant change is on page 11 of the FSS where new drafting has been included to outline the procedure for dealing with the Removal of Surplus for Employers whose Funding Level is in excess of 110%. Drafting has also been updated for the Fund's approach for considering McCloud implications (P20/21). Appendix 3 provides a tracked changes version of the FSS compared to 2022 version

6. Following the Employers Forum held on 12th December, the updated FSS was circulated to individual Employers, commencing a period of consultation which invited comments on the draft FSS by Tuesday 17th January 2023. No comments on the drafting of the FSS

were received by this date, with only a few minor formatting changes being received. The draft FSS was then considered by the Local Pension Board at its meeting on 24th January where the Board were comfortable that the updated FSS could be presented to the Pension Committee.

Legal Implications

7. The FSS must be revised and published in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended), whenever there is a material change in policy on the matters set out in the FSS.

8. The recommendation seeks approval of the FSS. This is a technical document the content of which Legal Services are unable to comment upon. However, Legal Services understand that the Fund employers and the Fund Actuary have been consulted and that their views have been considered when formulating the FSS.

9. In considering this matter, the decision maker must have regard to the general legal advice set out below should be considered.

General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

10. No financial implications arise directly from this report.

Recommendations

11. That the Committee approves the revised Funding Strategy Statement.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1 Funding Strategy Statement November 2022

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FUNDING STRATEGY STATEMENT 2022

Cardiff & Vale of Glamorgan
Pension Fund

Introduction

Overview

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations). It describes City and County of Cardiff's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Cardiff and Vale of Glamorgan Pension Fund (the Fund).

As required by Regulation 58(4)(a), the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in

September 2016. In addition, the Administering Authority has had regard to the supplementary statutory guidance issued by MHCLG (now DLUHC): Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements, and has also considered the Scheme Advisory Board's Guide to Employer Flexibilities.

Consultation

In accordance with Regulation 58(3), all appropriate persons (including Fund employers) have been consulted on the contents of this Statement and their views have been considered in formulating it. However, the Statement describes a single strategy for the Fund as a whole.

The Fund Actuary, Aon Solutions UK Limited, has also been consulted on the content of this Statement.

In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

Purpose of this Statement

The purposes of this Funding Strategy Statement are to set out the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer's pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Ensures the regulatory requirement to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund's liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement its focus should at all times be on those actions which are in the best long term interests of the Fund.

Well-being of Future Generations (Wales) Act 2015

The Well-being of Future Generations (Wales) Act 2015 requires each public body (including local authorities) in Wales to act "in accordance with the sustainable development principle". This means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The obligations under the Act of City of Cardiff Council, Vale of Glamorgan Council and the other scheme employers to which the Act applies have been recognised in this statement by giving priority to the long-term cost efficiency of the Fund.

Link to investment policy set out in the Investment Strategy Statement

The Investment Strategy Statement (ISS) is a statement of the principles governing the Fund's investment decisions. Among other things, it covers policy on the types of investments to be held, the balance between different types of investments, risk and the expected return on investments.

In keeping with the contents of this Statement, the ISS states that the policy of the Fund is to ensure that all payments made are at minimal cost to employing bodies. The investment objective is to maximise returns and minimise or at least stabilise employer contributions over the long term within an acceptable level of risk.

The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the ISS and the funding strategy set out in this Statement. The assets that most closely match the cashflows of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the ISS invests a significant proportion of the Fund in assets such as equities which are expected, but not guaranteed, to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved, the solvency position of the Fund may deteriorate, particularly where the liabilities are being measured by reference to prevailing gilt yields, as is the case for orphan liabilities

The investment returns required to meet the funding strategy are compatible with the investment policy set out in the ISS.

An Investment Advisory Panel reviews overall Fund risk. Priority is given to strategic asset allocation based on consideration of the full range of investment opportunities, and having regard to the diversification and suitability of investments. Within individual asset classes the Panel has adopted a specialist structure with a mixture of management approaches. Managers have clear targets and maximum accountability for performance.
The Fund's solvency objective is thus embedded in its strategic asset allocation policy and linked directly to the ISS, and the risks of different strategies. The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the ISS and the funding strategy set out in this Statement.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

Review of this Statement
The Administering Authority undertook its latest substantive review of this Statement in November 2022.

The Administering Authority plans to formally review this Statement as part of each triennial valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between actuarial valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

Aims and Purpose of the Fund

The main aims of the Fund in relation to the funding strategy are:

1. To manage employers' liabilities effectively

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:

- seeking regular actuarial advice
- ensuring that employers are properly informed and consulted
- through regular monitoring of the funding position and the outlook for employers' contributions, and
- appropriate segregation of employers for funding purposes.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position monthly to ensure that all cash requirements can be met.

3. Enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the Administering Authority and employers alike.

Producing low volatility in employer contribution rates may require investment in assets which ‘match’ the employer’s liabilities. In this context, ‘match’ means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise fixed interest and index linked gilt edged investments, where the liabilities are being measured by reference to prevailing gilt yields as is the case for orphan liabilities.

Other classes of assets, such as shares and property, are perceived to offer higher long term rates of return, on average, and consistent with the aim to seek returns from investments within reasonable risk parameters, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver the anticipated returns in the long term.
This short term volatility in returns can produce volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position would be potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

To seek returns from investments within reasonable risk parameters

The Administering Authority recognises the desirability of seeking investment returns within reasonable risk parameters through investment in unmatched investments. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as equities and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations
- limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy
- limiting concentration risk by developing a diversified investment strategy, and
- monitoring the mis-matching risk: that the investments do not move in line with the Fund's liabilities.

Purpose of the Fund
The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties
The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary. Their key responsibilities are as follows:

Administering Authority
The Administering Authority's key responsibilities are:

1. To operate a pension fund
2. To collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the

Administering Authority is able to, ensure these contributions are paid by the due date.

Individual employers must pay contributions in accordance with Regulations 67 to 71. The Administering Authority will ensure that all employers are aware of these requirements and also the requirements of the Pensions Act 1995.

The Administering Authority will monitor the receipt of contributions to ensure they are received in accordance with agreed arrangements. The Administering Authority also has an absolute discretion on the timing of payments relating to bulk transfers or early retirements. Where employers are not adhering to any arrangements this will be brought to their attention. Outstanding contributions or other monies not received by due date may be charged interest in accordance with the Regulations at Base Rate + 1%.

The Administering Authority will ensure, where appropriate, that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased (and from other employers whose participation in the Fund has ceased) by

- requesting that the Fund Actuary calculates any deficiency or surplus at the date of exit from the Fund
- notifying the body that it must meet any deficiency at exit and determine any exit credit to be paid to the exiting employer. The Administering Authority's policy is set out later in this Statement.

3. Invest surplus monies in accordance with the Regulations
The Administering Authority will comply with the Investment Regulations.

4. Pay from the Fund the relevant entitlements as set out by the Regulations.

5. Ensure that cash is available to meet liabilities as and when they fall due
The Administering Authority discharges this duty in the manner set out in the Aims of the Fund above.

6. *Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default.*

7. Manage the valuation process in consultation with the Fund Actuary
The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by relevant Guidance and Regulations

8. Prepare and maintain an ISS and a Funding Strategy Statement after due consultation with interested parties
The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

9. Monitor all aspects of the Fund's performance and funding, and amend these two documents if required
The Administering Authority monitors investment performance and the funding position of the Fund quarterly. The ISS will be formally reviewed annually, and the Funding Strategy Statement every three years, as part of the valuation cycle, unless circumstances dictate earlier amendment.

10. Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.

11. Enable the local pension board to review the valuation process as set out in their terms of reference.

12. Ensure consistent use of policies relating to revising employer contributions between formal actuarial valuations, entering into deferred debt agreements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all fund employers.

Individual Employers
The individual employers will:

- Deduct contributions from employees' pay
- Pay all ongoing members' and employer's contributions (both percentage of pay, monetary shortfall recovery contributions and any contributions agreed under a deferred debt agreement which are due) as determined by the Fund Actuary, promptly by the 19th day of the month
- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding, including any material change in financial circumstances
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the ISS, or other policies
- Pay any exit payments on ceasing participation in the Fund

The Fund Actuary
The Fund Actuary will prepare advice and calculations and provide advice on:

- Funding strategy and the preparation of the Funding Strategy Statement and will prepare actuarial valuations, including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost

efficiency and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years cost, etc.
- Assist the Administering Authority in assessing whether employer contributions need to be revised between valuation as permitted or required by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulation 64A
- Provide advice and valuations on the exiting of employers from the Fund.
- Provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- Provide reviews in relation to any decision by the Administering Authority to put in place a deferred debt agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the Fund.

Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.

Funding Strategy

Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund wants to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Further details of these three terms are set out in Appendix 1.

Application to different types of body
Some comments on the principles used to derive the Solvency and Funding Targets for different bodies in the Fund are set out below.

- **Scheduled Bodies and certain other bodies of sound covenant** The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.

- **Admission Bodies and certain other bodies whose participation is limited** For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Recovery Periods
Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contributions will be adjusted to target restoration of full funding over a period of years.

The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to Recovery Periods longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods and has agreed with the Fund Actuary a limit of 20 years for employers which are assessed by the Administering Authority as being a long term secure employer.

The Administering Authority's policy is to agree Recovery Periods to recover any deficit with each employer which are typically shorter where possible within this framework. For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

For any employers that have entered into a deferred debt agreement, the recovery period will generally be set equal to the remaining period of the deferred debt agreement.

Removal of surplus
Consistent with a desire to keep employer contribution rates as nearly constant as possible, the removal of surplus shall not generally apply to any employer at a funding level of between 100% and 110%. Those employers will generally be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus.

In respect of any employer with a funding level above 110%, the removal of surplus shall generally only apply to any surplus above the 110% funding level.

The period over which any surplus is removed will generally be set in line with the Recovery Periods section above.

Stepping
Consistent with a desire to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years (this could be an increase or decrease in employer contribution rates). The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps (i.e. the valuation period) will be permitted. Further steps may be permitted in extreme cases, but the total number of steps is unlikely to exceed six steps.

Grouping or Pooling
In some circumstances it may be desirable to group or pool employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include:

- reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund, or
- small outsourcings which have been undertaken on a pass-through approach where it makes sense for the service provider / contractor to be given either the same contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or
- employers have been grouped for practical or commercial reasons.

The Administering Authority recognises that grouping of employers can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period (e.g. certain admission bodies) grouping is unlikely to be permitted.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

Where employers are grouped together entirely for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in ill health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

There are two main groups of small employers in the Fund pooled together for funding and contribution purposes.

1. The Town and Community Councils Group.

Currently all the employers participating within the group pay the same percentage of pay contribution rate.
2. The Colleges Group.

Currently the employers participating within the group pay a common primary (future service) contribution rate and a deficit contribution amount equal to a proportion of the group's total monetary deficit contributions. If the Colleges Group is assessed to have a surplus the employers participating within the group will pay the same percentage of pay contribution rate, allowing for the removal of any surplus as appropriate.

In addition, there are a number of service providers or other employers pooled with either Cardiff Council or Vale of Glamorgan Council for contractual or commercial reasons.

Full details of the groups / pools, the participants at the date of writing this Statement and the way they operate is set out in Appendix 3.

Inter-valuation funding calculations
In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

Notional Sub-Funds for individual employers
In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Details of how the sub-funds are rolled forward are set out in Appendix 2.

Fund maturity
To protect the Fund, and individual employers, from the risk of increasing maturity and declining payrolls producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require monetary contributions from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll but may have regard for assumed projected payroll provided by the employer. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring monetary contributions rather than percentages of payroll. Where an employer is assessed to be in surplus and contributions are to be set below the cost of future accrual this will be implemented via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount (subject to a minimum overall contribution rate of zero).

Special Circumstances related to certain employers

Interim reviews
As part of each actuarial valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions is set out in Appendix 4.

Guarantors
Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitization
Schedule 2 Part 3 Para. 6 of the Regulations creates a requirement for a new admission body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of a body admitted under Schedule 2 Part 3 Para. 1(d)(i) of the Regulations) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of admission bodies admitted under Schedule 2 Part 3 Para. 1(d) of the Regulations and other admission bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of admission bodies admitted under Schedule 2 Part 3 Para 1(e) of the Regulations, or under Para 1(d) where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.

- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

Where an employer is exiting the Fund, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities
Where an employer is exiting the Fund, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

Exit of an employer from the Fund
Where an employer exits the Fund, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

The Administering Authority's policy is that in the normal course of events any deficiency that exists at exit of an admission body will be payable immediately as a single payment. In certain cases, the Administering Authority may be prepared to agree payment over a period of time as permitted under Regulation 64B. The

Administering Authority's policy in relation to spreading of exit debt is set out in Appendix 5.
For employers that exit the Fund on or after 1 April 2019 the Administering Authority will include an approximate allowance in the exiting employer's liabilities for potential additional liabilities arising from the McCloud judgement and cost management process and for the potential costs of GMP equalisation / indexation. In determining this allowance, the Administering Authority will have regard to any relevant guidance prepared by the Scheme Advisory Board and the advice of the Fund Actuary. It will be kept under regular review as further information on the McCloud judgement / Cost Management process and GMP equalisation / indexation becomes available.

Exit Credits

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months of the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided.

In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

(a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus);
(b) the proportion of the surplus which has arisen because of the value of the employer's contributions;
(c) any representations made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations; and
(d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place. It should be noted that this is not an exhaustive list.

In particular the Administering Authority will not generally pay an exit credit larger than the total of the exiting employer's contributions paid into the Fund, less any costs incurred by the Administering Authority in relation to the exit.

Identification of risks and counter measures

Approach

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these wherever possible. The main risks to the Fund are:

Investment risk
This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

Climate Risk
The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority keeps the effect of climate change on future investment returns under review and will commission advice from the Fund Actuary on the potential effect on funding as required.
At the 2022 valuation the Fund Actuary will undertake scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period.

Employer risk
These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or

orphaned liabilities where employers are unable to meet their obligations to the Fund.

The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority monitors employer payments and expects employers to engage with the Fund where their circumstances have changed, noting that contributions can be reviewed between formal valuations if the conditions in Regulations 64A and the terms of the Administering Authority's policy as set out in Appendix 4 are met.

The Administering Authority will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the Funding Strategy Statement.

Liability risk
The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds in place for Admission Bodies require review.

Where it appears likely to the Administering Authority that for an employer the amount of the liabilities arising or likely to arise has changed significantly since the last valuation, the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A in line with the Administering Authority's policy as set out in Appendix 4.

Regulatory risk
The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.
The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

There are a number of uncertainties associated with the benefit structure at the current time including:

- The timing and detail of any regulations in relation to the remedy to compensate members for illegal age discrimination following the outcome of the McCloud/Sargeant cases.
- The outcome of the cost management process as at 31 March 2020.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

In determining how these uncertainties should be allowed for in employer contributions the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice.

For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based upon a high-level analysis of the employer's fund membership. Members' benefits will be valued as required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

i) It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.

ii) The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).

iii) Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).

iv) Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.

v) The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

For new employers commencing participation in the Fund after 1 April 2022, the Administering Authority will generally adopt a consistent approach to that adopted for the 2022 valuation of the Fund.

In addition, a consultation document was issued by MHCLG (now DLUHC) entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the Regulations as a result of this consultation and consider any actions required at future actuarial valuations, taking account of the Fund Actuary's advice.

Liquidity and maturity risk
Changes to the LGPS may impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS
- transfer of responsibility between different public sector bodies
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The Administering Authority’s policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Governance risk
This covers the risk of unexpected structural changes in Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The policy is to require regular communication between the Administering Authority and employers and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Christopher Lee
Corporate Director Resources

November 2022

Appendix 1: Method and assumptions used in calculating the funding target

Solvency Target

The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts (CPI).

For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit from the Fund the Solvency Target will be set by considering the valuation basis which would be adopted should the employer leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of UK Government bonds after the employer has exited the Fund.

For any employers that have entered into a deferred debt agreement it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the deferred debt agreement ends. For most such bodies, to minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments, such as UK Government bonds.

Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.
The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target
The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Full Funding and Solvency
The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

Trajectory Periods
The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Appendix 2: Notional Sub-Funds for individual employers

Roll-forward of sub-funds

The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund (see earlier)
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.
- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

Appendix 3: Groups / Pooling

Town and Community Councils Group

The active participants of the Group, at the date of writing this Statement, are:

- Cowbridge Town Council
- Llantwit Major Town Council
- Penarth Town Council
- Barry Town Council
- Radyr & Morganstown Community Council
- Lisvane Community Council
- Wenvoe Community Council
- Penllyn Community Council
- Pentyrch Community Council
- St Fagans Community Council

In addition, there are liabilities related to the following bodies which currently have no active members. These liabilities remain part of the liabilities of the group:

- Barry Memorial Hall
- Dinas Powys Community Council
- Sully Community Council

Currently the active participants of the group pay the same percentage of pay contribution rate which includes a contribution towards the deficiency or surplus of the group.

If a Town or Community Council has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

Given the liabilities are generally small the Administering Authority will not expect an exiting employer to make an exit payment or receive any exit credit unless the exiting employer has a material impact on other employers in the Group. The assets and liabilities relating to the exiting employer will remain part of the Group.

Similarly, there will not be an expectation that an employer with a suspension notice will make any contributions during the suspension period unless it has a material impact on other employers in the Group.

Colleges Group

The active participants, at the date of writing this Statement, are:

- St David Catholic College

- Cardiff and Vale College (including former liabilities relating to Coleg Glan Hafren and Barry College)
- Cardiff Metropolitan University (including former liabilities relating to University of Wales Institute, Cardiff)

The contribution rate is a common primary (future service) contribution rate and a contribution to the group's deficiency expressed as a monetary amount (generally calculated in proportion to the employer's payroll at the valuation date but another approach could be used in the future if the Administering Authority felt it was appropriate). If the Colleges Group is assessed to have a surplus the employers participating within the group will pay the same percentage of pay contribution rate, allowing for the removal of any surplus as appropriate.

If a College or University has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

An exit valuation will be calculated for an exiting employer based on its share of the group's assets (as determined by the Administering Authority based on advice provided by the Fund Actuary).

Cardiff Council Pooling Group

The Cardiff Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Cardiff Council
- Former employees of:
    - Cardiff Corporation
    - Cardiff City Council and
    - South Glamorgan County Council (72.37% only)

- Employers who have been pooled with as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
    - Cardiff Bus
    - Race Equality First
    - Cardiff & Co
    - App Cleaning Limited (St Teilo's School)
    - GLL
    - A&R Cleaning (Lansdowne School)
    - Grangetown Prim Cleaning (App)
    - Circle IT (Eastern High School)
    - Glen Cleaning (Eastern High School)
    - A&R Cleaning (Gabalfa Primary School)
    - A&R Cleaning (Greenway Primary School)
    - A&R Cleaning (Trowbridge Primary School)

- A&R Cleaning (Whitchurch Primary School)
- Cardiff Institute for the Blind
- Cardiff Gypsy & Traveller Project
- Supacleen Ltd
- New Theatre Cardiff Limited

Vale of Glamorgan Council Pooling Group

The Vale of Glamorgan Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Vale of Glamorgan Council
- Former employees of South Glamorgan County Council (27.63% only)
- Employers who have been pooled with as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
    - St Cyres School
    - National Trust
    - Glen Cleaning Barry Comp
    - Glen Cleaning (Llandough Primary)
    - Circle IT (Cowbridge)
    - Glen Cleaning (Gladstone Primary School)
    - A&R Cleaning (High Street School Barry)

Appendix 4:

Policy on reviewing employer contributions between triennial actuarial valuations

The Regulations require a triennial actuarial valuation of the Fund. As part of each actuarial valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A.

The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme;
- it appears likely to the Administering Authority the Scheme employer will become an exiting employer; or
- the Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.
In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example due to the restructuring of an employer, a significant outsourcing or transfer of staff, the loss of a significant contract, closure to new entrants, material redundancies, significant pay awards, or other significant changes to the membership due to ill-health retirements or voluntary withdrawals;
- the materiality of any change in the employer's membership or liabilities, taking account of the Fund Actuary's view of how this might affect its funding position, primary or secondary contribution rate;
- whether, having taken advice from the Fund Actuary, the Administering Authority believes a change in funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund;

- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund;
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pension Administration Strategy and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time.

For an employer where contributions may be reviewed under Regulation 64(4), the following circumstances may trigger a review, which may be informal as well as a full interim valuation (this is not intended to be a comprehensive list):

- a review has been requested by the relevant guarantor or subsuming employer, or for transferee and Schedule 2 Part 3 (1)(d) admission bodies, the relevant scheme employer;
- a material change in circumstances, such as the date of exit becoming known, the employer closing the scheme to new entrants, material membership movements or material financial information coming to light.

For an employer whose participation is expected to cease within the next 3 years, the Administering Authority will monitor developments and may request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) or 64A applies which may lead to a revised contribution schedule for the employer.

Where contributions are being reviewed for an employer with links to another employer in the Fund, particularly where this is a formal organisational or contractual link, e.g. a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk and impact of the contribution review on those other employer(s), taking advice from the Fund actuary as required.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related employers with a view to seeking their agreement to this approach.

In many cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

In any event, in all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related employer in the Fund and the proximity to the next formal valuation.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also consider the timing of contribution changes following the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate as part of the valuation.

Where the request for a review comes from the employer, before submitting their request, the employer should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. In addition, employers should adhere to the notifiable events framework as set out in the Pension Administration Strategy. Employers should be aware that all advisory fees, including actuarial, legal and any other costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Appendix 5:

Policy on spreading of exit payments and deferred debt agreements

Spreading of exit payments

The starting position of the Administering Authority is that an exiting employer will be required to meet any exit liability owed as a single lump sum payment. However, the Administering Authority may allow phased exit payments as permitted under Regulation 64B.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage with the employer to consider its application and determine whether spreading the exit payment is appropriate and the terms which should apply.

In determining whether to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be up to 3 years but longer periods may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that this may not be possible until after the employer has exited the Fund. Where there is a guarantor or subsuming employer, the guarantor/subsuming employer will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Alternatively, monthly payments may be required, or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period, the annual payments due, any other costs payable including actuarial and legal costs and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

The Administering Authority will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pension Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Deferred debt agreements (DDAs)
Under Regulation 64(7A) of the Regulations, an administering authority may enter into a written agreement with an exiting employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate.

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the Fund as a whole;
- The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser;
- The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit;
- Whether an up-front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. The Administering Authority will engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

The matters which the Administering Authority will reflect in the DDA include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;

- A provision that the DDA will terminate on the first date on which one of the following events occurs-
    - the deferred employer enrols new active members;
      the period specified, or as varied, elapses;
    - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
    - the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
    - the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

  - The responsibilities of the deferred employer;
  - The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership. 33

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund;
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months; and
- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pension Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 6 FEBURARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5

INVESTMEMT STRATEGY STATEMENT

Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.

2. The Terms of Reference include the review and approval of the Fund's Investment Strategy Statement (ISS). The draft ISS is attached as Appendix 1 to this report.

Background

3. The LGPS Investment Regulations require an administering authority to review its ISS at least every three years. The current ISS was approved by the Pension Committee at its meeting on 27 January 2020.

Issues

4. A number of developments have occurred since the current ISS was prepared which need to be reflected in an updated statement, which include :
   - The launch of a number of Wales Pension Partnership (WPP) equity and fixed income sub-funds with this Fund now holding investments in all four of the WPP equity sub-funds and three of the five WPP fixed income sub-funds.
   - The development of Private Market Funds by the WPP with Private Credit and Infrastructure sub-funds to be launched early in 2023 and to be followed by Private Equity and Property sub-funds.
   - The launch of the WPP Sustainable Active Equity sub-fund expected in April 2023.
   - The continuing development of the Fund's investment strategy to incorporate concerns on Environmental, Social and Governance (ESG) issues in particular climate change risk and investment in fossil fuel producers.

5. The draft ISS is attached as Appendix 1 and was considered by the Investment Advisory Panel at its meeting on 13 December. The Panel were comfortable in recommending the approval of the draft ISS to the Pension Committee.

Legal Implications

6. Pursuant to the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016, Regulation 7 the Administering Authority ("Authority") is required, to formulate an investment strategy which must be in accordance with any guidance issued by the Secretary of State.

7. The Authority must in accordance with the Investment Regulations review and if necessary revise the ISS from time to time, and at least every 3 years, and publish a statement of any revisions. The Authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

8. The recommendation seeks approval of the ISS. This is a technical document the content of which Legal Services are unable to comment upon. However, Legal Services understand from the body of the report that the Fund Investment /Advisory Panel have been consulted and are comfortable in recommending the approval of the draft, attached in the Appendix hereto.

9. In considering this matter, the decision maker must have regard to the Council's wider obligations under the Wellbeing of Future Generations (Wales) Act 2015, the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.

10. Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation

11. In considering this matter the decision maker should have regard to the general legal advice set out below.

    <u>General Legal Advice</u>

    Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

    The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

    The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a

Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

12. No financial implications arise directly from this report.

Recommendations

13. That the Committee approves the revised Investment Strategy Statement.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1 Investment Strategy Statement 2023

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THE CARDIFF & VALE OF GLAMORGAN PENSION FUND

INVESTMENT STRATEGY STATEMENT

JANUARY 2023

Introduction

Cardiff Council ('the Council') is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund ('the Fund')

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016 ("the Investment Regulations") require administering authorities to formulate and publish an investment strategy.

The Investment Strategy Statement (ISS) required by Regulation 7 of the Regulations must include:

(a) A requirement to invest money in a wide variety of investments;

(b) The authority's assessment of the suitability of particular investments and types of investments;

(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

The ISS must comply with guidance issued from time to time by the Secretary of State, currently the guidance issued in July 2017.

The Terms of Reference of Cardiff Council's Pensions Committee ('the Committee') include determining the authority's investment strategy. This statement sets out the strategy for the 2023-24 and subsequent two financial years and has been prepared in consultation with the Fund's Investment Advisory Panel ('the Panel'). This timescale will align with the Fund's tri-annual valuations and the Funding Strategy Statement (FSS). The ISS will be supplemented by the Fund's Strategic Asset Allocation which will be approved by the Pension Committee on an annual basis.

A Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps reduce volatility.

The Committee aims to meet the requirement for a diversified portfolio by reviewing its Strategic Asset Allocation on an annual basis. The Asset Allocation is approved by the Committee on the advice of the Panel. The Panel considers a wide range of investment opportunities before making its recommendations.

Current asset classes included in the allocation are:

- Conventional & Index Linked Fixed Interest – Global
- Equities – Global, UK & Emerging Markets
- Private Equity (via pooled funds of funds)
- Property funds – UK & Global
- Private Markets – Private Credit and Infrastructure (Investments expected to be made early in 2023)

The following investment related activities are also permitted:

- Derivatives and other financial instruments within pre-agreed limits for the purpose of efficient portfolio management or for specific purposes such as currency hedging
- Underwriting, provided the underlying stock is suitable on investment grounds and complies with existing investment criteria

The Asset Allocation targets and variance limits currently in force together with the portfolio benchmarks and targets are summarised in Appendix A.

Investment Limits

The Investment Regulations in force between 2009 and 2016 set statutory limits for different types of investments. The 2016 Investment Regulations removed these limits but the Fund will continue to operate within the limits in column 2 of Schedule 1 to the 2009 Regulations in respect of any assets not yet transitioned to the Wales Pensions Partnership.

B Suitability of particular investments and types of investments

The investment policy of the Fund is intended to ensure that all statutory payments made from the Fund are at minimal cost to employing bodies.

The overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk. Investment returns are defined as the overall rates of return (capital growth and income combined). It is also recognised that investments are intended to preserve and enhance the Fund’s value.

The statutory requirement is to move towards 100% funding of the Fund’s accrued liabilities over a period of time. This period together with the funding level is calculated every three years and agreed with the Actuary following a review that assesses the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its advice. The Panel will regularly review the overall asset allocation and consider appropriate opportunities for a further asset-liability study as was the case with the upcoming WPP Private Credit and Infrastructure investments. .

C Risk

A detailed schedule of the main risks to the Fund is set out in the Funding Strategy Statement. Risks arising from investments are monitored by the Investment Advisory Panel. The Fund recognises the risks arising from holding a higher proportion of equities and other return seeking assets than would be held under a liability-driven strategy but considers that these risks are mitigated by the strong covenant of the Fund's principal employers and the stable maturity profile of its membership.

Investment Risk is the risk that the Fund's managers fail to achieve the rate of investment return assumed in setting their mandates. The primary control over investment risk is the diversification of assets across markets and asset classes. Correlations amongst these will vary over time, but the underlying risk of exposure to a specific capital market is mitigated to some extent by a diversifying strategy such as that followed by the Fund.

The individual specialist fund managers manage the risk of variation from benchmarks consistent with the targets they have been given. Relative risk levels for active managers are reported quarterly and discussed annually by the Panel. The Panel recognises that tracking error itself can be a volatile measure of the risks being taken by a manager and that ex post statistics may vary considerably from ex ante estimates. As such, its predictive value needs to be treated with care. The tracking error is therefore used as a guide when considering overall manager performance.

Liquidity Risk is the risk that the Fund cannot meet its immediate liabilities because it has insufficient assets. The Fund monitors its liquidity position carefully to ensure that it is not a seller of long term assets to make benefit payments. At least 80% of the Fund's assets are held in publicly listed equities and bonds which can be readily realised. Investments in property and private equity are long term investments which the Fund is less likely to be able to realise in a short period.

Operational risks arise through the implementation of the Fund's investment strategy. These risks are set out below:

- Transition risk – the Fund may incur unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the fund takes professional advice and considers the use of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

- Custody risk – the Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or being traded. It does this through the use of a global custodian (Northern Trust) for custody of assets, the use of formal contractual arrangements for all investments and by maintaining independent investment accounting records.

- Credit default risk – a counterparty related to a Fund investment could fail to meet its obligations. The Fund's investment managers are required under their asset management contracts to manage counterparty risk on behalf of the Fund.

D Pooling of Investments

The Cardiff & Vale of Glamorgan Pension Fund is one of the eight LGPS funds participating in the Wales Pension Partnership (WPP). The proposed structure and basis on which the WPP operates was set out in the July 2016 submission to the Department for Communities and Local Government.

Assets to be invested in the WPP

The Committee's intention is to invest the Fund's assets through the WPP as and when suitable pooled investment solutions become available. By 30 September 2022 this Fund had invested in the following WPP Active Equity and fixed Income Funds :-

Asset Class	Fund	Date of Investment
UK Equity	UK Opportunities Fund	February 2019
Fixed Income	Global Government Bonds	August 2020
Fixed Income	Global Credit	August 2020
Fixed Income	Multi Asset Credit	August 2020
Global Equity	Global Opportunities Fund	July 2021
Global Equity	Global Growth Fund	July 2021
Emerging Market Equity	Emerging Market Equity Fund	October 2021

The Fund's allocation to passive Equities have been invested through pooled funds managed by BlackRock following a collaborative procurement carried out in 2016 with the other LGPS funds in Wales. As at 30 September 2022 the Fund's passive equity holding is solely invested in the BlackRock Low Carbon Tracker Fund.

As at 30 September 2022 over 84% of the Fund's value is now invested in WPP or collaboratively procured funds.

The Pension Committee has also approved investment of up to 7.5% of Fund value into each of the WPP Private Credit and Open-ended Infrastructure Funds. These investments are expected to commence early into 2023.

A WPP Private Equity Fund is targeted to be launched during 2023. It is anticipated that the Fund's existing private equity investments will not be transitioned into the Pool but will be replaced by the WPP Fund as they mature over the next 10-15 years. Work on developing a WPP Property Fund will continue in 2023. At this stage no decision has been made on whether the Fund will transition its Property assets to any WPP Property Fund but this will be considered during the lifecycle of this Statement.

Structure and governance of the Wales Pension Partnership

The WPP has appointed Link Fund Solutions to establish and operate a collective investment vehicle for the sole use of the LGPS funds in Wales. Link have established an Authorised Contractual Scheme (ACS) on behalf of the WPP and have developed a range of sub-funds in which the assets of the eight participating pension funds have been invested. Link are supported by Russell Investments who advise on sub-fund design and manager selection. Northern Trust have been appointed as the ACS Custodian.

A Joint Governance Committee (JGC) was established which comprises one elected member from each constituent administering authority and is supported by an Officer Working Group. Carmarthenshire Council acts as Host Authority to provide administrative and secretarial support to the WPP.

The Terms of Reference of the JGC and the roles of the Officer Working Group and Host Authority have been set out in a legally binding Inter Authority Agreement approved and executed by the eight administering authorities. The responsibilities of the JGC include:

- Monitoring the performance of the Pool 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 WPP
- Having responsibility for reporting on the WPP to the UK Government and other stakeholders
- Having oversight of the Officer Working Group

The eight administering authorities retain control over setting their individual Fund's investment strategy and asset allocation.

E How Environmental, Social and Governance (ESG) considerations are taken into account

The Committee seeks to identify investment opportunities which do not conflict with its fiduciary duties to seek an optimum return, whilst wishing at the same time to take account of Environmental, Social and Governance (ESG) concerns and issues. It recognises the concerns of the Fund Employers and other stakeholders regarding these ESG issues, in particular climate change, and as it has done over the previous three years, will continue to develop its investment strategy in response to those concerns. Subject to being consistent with its fiduciary duties and regular assessments by the Panel of the impact of investment decisions, the Committee will consider enhancing its Responsible Investment activities. This will respond to the future opportunities that are presented to the Fund, in particular through the WPP, which could include :

- Investing in the Sustainable Active Equity Fund which is expected to be launched by the WPP towards the end of Q1 2023.
- Considering whether the Fund should set its own "Net Zero" target and if it does the timeframe in which it will meet this target.?
- The majority of the Fund's assets are now pooled in WPP Funds and as the WPP is currently a signatory to the UK Stewardship code it is felt that this adequately covers us at this moment in time.
- Continued engagement with investment managers and companies through WPP and LAPFF with the ultimate sanction of disinvestment from companies representing a continuing ESG risk who do not respond positively to engagement.
- Positive investment in companies developing clean technology for example through the WPP Infrastructure Funds to be launched early in 2023.

The Committee will expect the investment managers appointed via the WPP to adopt the relevant stewardship principles (either the UN Principles for Responsible Investing or the UK Stewardship Code) and to report on their compliance.

The Fund is a member of the Local Authorities Pension Fund Forum (LAPFF) to enable it to act collectively with other LGPS funds on corporate governance issues.

Consultation on Taskforce for Climate Related Financial Disclosures (TCFD) proposals for LGPS Funds closed in November 2022. Regulations are expected to come into effect from April 2023 with the first Fund Annual Report to include these disclosures, for 2023/24, being published by 1 December 2024.

F The exercise of rights (including voting rights) attaching to investments

The long term investment interests of LGPS funds are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

The Fund will participate in the development of voting and engagement policies for the WPP, through Robeco the WPP's Engagement and Voting advisor, which promote high standards of corporate governance, including transparency and accountability by companies for the ESG impacts of their business activities.

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CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 6 FEBRUARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6

REVIEW OF PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

Reason for this Report

1. To complete the review of the Governance Compliance Statement for the Pension Fund.

Background

2. The Fund's Governance Compliance Statement is included in its Annual Report (Appendix 5) and this statement sets out how the Administering Authority has delivered the governance responsibilities of the Fund. This includes an assessment of how the Fund has performed against the nine principles of good governance practice.

3. The revised Governance Compliance Statement was considered by the Local Pension Board at its meeting on 24 January 2023.

Issues

4. The Governance Compliance Statement was last considered by the Pension Committee at its meeting on 7 February 2022. No significant changes are proposed for the Governance Compliance Statement although the opportunity has been taken to update the statement where relevant such as with the WPP JGC co-opted Scheme Member.

5. A copy of the revised Statement is appended to this Report as Appendix 1. If this Statement is approved by the Pension Committee the revised version would be included in the Fund's 2022/23 Annual Report.

Legal Implications

6. The governance compliance statement appended to this report has been prepared in compliance with regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) (the "LGPS Regulations").

7. The statement sets out how the administering authority discharges its functions in accordance with the LGPS Regulations and this statement must be revised following material changes to its Governance arrangements and as such does not raise any direct legal implications however the general legal advice set out below should be considered.

8. <u>General Legal Advice</u>

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

9. There are no financial implications arising directly from this report.

Recommendations

10. That the Committee approves the Governance Compliance Statement appended as Appendix 1.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1 Governance Compliance Statement (February 2023)

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Local Pension Board : 24 January 2023

Item 5 Appendix 1 : Review of Governance Compliance Statement

GOVERNANCE COMPLIANCE STATEMENT

This Statement has been prepared and published by the City of Cardiff Council as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund, in compliance with regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) (the "LGPS Regulations").

Delegation of Functions

City of Cardiff Council has established a Pensions Committee to discharge its functions under the LGPS Regulations and has delegated operational management of the Pension Fund to the Corporate Director Resources. The relevant sections in the Council's Constitution are:

Terms of Reference for Committees:
Pensions Committee
To discharge the functions of the authority as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') as described in the Local Government Pension Scheme (LGPS) Regulations made under the Superannuation Act 1972 (sections 7,12 or 24) and Section 18(3A) of the Local Government and Housing Act 1989; and

To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:-

a) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:

- i) Governance – approving the Governance Policy and Compliance Statement for the Fund;
- ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;
- iii) Investment strategy - approving the Fund's Investment Strategy Statement (previously the Statement of Investment Principles (SIP)) and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
- iv) Communications Strategy – approving the Fund's Communication Strategy;
- v) Discretions – determining how the various administering authority discretions are operated for the Fund; and
- vi) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.

b) Monitoring the implementation of these policies and strategies as outlined in a) above on an ongoing basis.

c) Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.

d) Receiving ongoing reports from the Corporate Director Resources in relation to the delegated operational functions.

e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.

f) To adhere to the principles set out in the Pensions Regulator Code of Practice and undertake its duties in compliance with the obligations imposed on it.

g) To receive regular training to enable Committee Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.

h) Consider any pension compliance matters raised by the Fund's Local Pension Board.

i) All Members of the Committee will be required to undertake relevant training to enable them to properly discharge their duties.

Local Pension Board

The terms of reference of the Local Pension Board are also included in the Council's Constitution and are as follows :-

To assist Cardiff Council as Scheme Manager and Administering Authority to:

(i) secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the scheme;

(ii) secure compliance with any requirements imposed by the Pensions Regulator in relation to the LGPS; and

(iii) ensure the effective and efficient governance and administration of the scheme (pursuant to sections 5(1) and (2) of the Public Services Pensions Act 2013 and regulation 106(1) of the LGPS Regulations

Specific Delegations to Statutory Officers: Corporate Director Resources
FS28

In accordance with any policy or strategy decided by the Pensions Committee to approve decisions relating to the operational management of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') and the administration of pension benefits.

The administration of the Pension Fund is carried out by the Pensions Section based in County Hall. All significant decisions e.g. the exercise of discretions granted to the administering authority under the LGPS regulations, are made and recorded in accordance with the Council's scheme for delegated decision making. As part of the Resources Directorate, the Section is subject to the Council's policies, procedures and internal controls.

The Pension Committee and Corporate Director Resources are advised on investment matters by an Investment Advisory Panel (the Panel). The role of the Panel is detailed in the Fund's Investment Strategy Statement (ISS) .

The Panel comprises:

- Corporate Director Resources
- Three elected members of City of Cardiff Council
- One elected member of Vale of Glamorgan Council (observer status)
- Two independent advisers

The Panel normally meets four times a year to review the performance of the Fund's investments and to advise on investment strategy. The Panel also considers other aspects of the administration of the LGPS which may have implications for investments e.g. the triennial actuarial valuation. The Panel receives presentations from Investment Managers, primarily Russell Investments and Link FS now that the majority of the Fund's investments are in Wales Pension Partnership (WPP) sub-funds. The performance of WPP Investment Managers is also considered by the WPP Joint Governance Committee (JGC) and Officer Working Group (OWG).

An Employers' Forum is held annually to which all contributing employers of the Fund are invited.

The Forum receives presentations on matters such as changes in regulations, the investment performance of the Fund and actuarial valuations.
Previously a separate Trade Union Forum was held annually to consider similar issues to the Employers Forum with trade union representatives but in recent years the opportunity has been taken to merge the two Forums.

Compliance with Statutory Guidance

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/ Partial	Reason for non-Compliance (if applicable)
Principle A – Structure			
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	The Committee's Terms of Reference and Officer Delegations are clearly set out in the Council's Constitution	Yes	
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The two main employers are represented on the Investment Advisory Panel (the Panel). Other employers are represented on the Local Pension Board and attend the annual Employers' Forum Scheme members are not represented on the Committee or Panel but are represented on the Local Pension Board and attend the Trade Union Forum. The Joint Governance Committee (JGC) of the Wales Pension Partnership (WPP) now includes a non-voting Scheme Member	Partial	Pension Board (Secondary Committee) has representatives from Employers and Scheme Members but not pensioner or deferred members
That where a secondary committee or panel has been established, the structure ensures effective communication across both	Yes Minutes from meetings of both the Panel and the Local Pension Board are agenda	Yes	

levels.	items for the Pension Committee.		
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No – the Committee is a committee of the administering authority.		
Principle B – Representation			
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) independent professional observers; and iv) expert advisors (on an ad-hoc basis).	The Committee is a committee of the administering authority. The two unitary authorities employ over 85% of active members and are represented on the Panel. Other employers are not represented on the Panel but are represented on the Pension Board Scheme members are not represented on the Committee or Panel but are represented on the Pension Board Two independent advisors attend every Panel meeting	Partial	Pension Board (Secondary Committee) has representatives from Employers and Scheme Members but not pensioner or deferred members
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All Committee, Panel and Board members have the same access to papers and training opportunities.	Yes	
Principle C - Selection and Role of Lay Members			
That Committee, Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	The functions of the Committee and the Board are set out in the Council's Constitution. The role of the Investment	Yes	

	Advisory Panel is clearly set out in the ISS and other key documents		
Principle D – Voting			
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees	Voting Rights for this Fund are largely exercised through the WPP, in line with the other Welsh LGPS Funds. The WPP has appointed Robeco as its voting and engagement advisor and WPP receives updates on voting and engagement activity from Robeco. The WPP undertakes regular reviews of it's voting policy.	Partial	As a consequence of concentration of investments in WPP Funds voting is not exercised via the Fund.
Principle E – Training/Facility Time/Expenses			
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Committee, Board and Panel members are advised of training opportunities. Yes	Yes Yes	
Principle F - Meetings (frequency/quorum)			
That an administering authority's main committee or committees meet at least quarterly. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. That administering authorities	The Committee meets at least quarterly. The Investment Advisory Panel and Pension Board meets quarterly in advance of Pension Committee dates. One of the Board meetings is a joint meeting with the Committee Employers' Forum, incl	Yes Yes Yes	

who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Trade Unions, is held annually		
Principle G - Access			
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Papers are circulated to all Committee, Board and Panel members in advance of meetings. The target is to circulate papers for all three meetings 3 working days in advance of the meeting.	Yes	
Principle H - Scope			
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangement	The Committee's role is to consider all strategic issues. The Investment Advisory Panel considers all issues relevant to investment matters whilst the Board has a focus on pension administration issues. Wider issues are also discussed at the Employers' Forum.	Yes	
Principle I - Publicity			
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All governance documents for the Pension Committee are published on the Council's website. The Fund website includes a number of key governance documents including the Annual Report and the Administration Strategy.	Yes	

Local Pension Board

Further information on the Local Pension Board, including the Board's Terms of Reference for have been published on the Fund's website:
[Pensions Committee and Board - Cardiff and Vale Pension Fund]()

Wales Pension Partnership (WPP)
Details of the governance arrangements for the WPP can be found on the WPP website

[Wales Pension Fund | Governance (walespensionpartnership.org)]

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
February 2023

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CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 6 FEBRUARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 7

PENSION FUND ANNUAL REVIEW OF FUND POLICIES AND STRATEGIES

Reason for this Report

1. To complete the review of the Communication Policy, Complaints and Compliments Policy and Administration Strategy for the Pension Fund.

Background

2. Regulation 61 of the LGPS Regulations 2013 states that Administering Authorities must prepare and publish a Communication Policy. The Pension Regulator had previously recommended that the Cardiff and Vale of Glamorgan Pension Fund develop and implement a Communication Policy.

3. All three documents were previously considered by the Pension Committee at its meeting on 7 February 2022. The meeting of the Local Pension Board on 24 January 2023 considered updated versions of the Communications Policy, Complaints and Compliments Policy and the Administration Strategy.

Issues

4. Only minor updates are proposed for these documents which are attached as Appendices to this report. Within the Communications Policy the opportunity has been taken to update the information provided about the Wales Pension Partnership (WPP). Plus another paragraph outlining the Local Pension Board arrangements has been added to the Employer information, to match the Scheme Member information.

5. Within both policies and the Administration Strategy contact details have been updated as well as amending the title of the responsible Government department from the Ministry of Housing, Communities and Local Government (MHCLG) to the Department for Levelling Up, Housing and Communities (DLUHC).

6. The updated Communication Policy for the Fund is appended as Appendix 1 with the revised Complaints Policy appended as Appendix 2 and the Administration Strategy as Appendix 3.

Legal Implications

7. Regulation 61 of the Local Government pension Scheme Regulations 2013 provides that an administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with members, representatives of members, prospective members and scheme employers. It further provides that the statement must be revised and published by the administering authority following a material change in their policy in relation to certain matters. As such this report does not raise any direct legal implications however the general legal advice set out below should be considered.

8. General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the

Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

9. There are no financial implications arising directly from this report.

Recommendations

10. That the Committee approves the updated
    a) Communications Policy
    b) Complaints and Compliments Policy
    c) Administration Strategy

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1 Communications Policy (February 2023)

Appendix 2 Complaints Policy (February 2023)

Appendix 3 Administration Strategy (February 2023)

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Cardiff & Vale of Glamorgan
Pension Fund

Communication Policy Statement

Communications Policy Statement

Introduction

The Cardiff and Vale of Glamorgan Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective way possible, in this ever-changing pension environment.

This Policy Document has been prepared and published, by Cardiff Council as Administering Authority of the Cardiff and Vale of Glamorgan Pension Fund. This Policy document has been written in compliance with regulation 61 of the Local Government Pension Regulations 2013 (the LGPS Regulations).

The Objectives of the Fund's Communication Strategy are:

- improve awareness and appreciation of the benefits provided by the pension scheme
- encourage take up of the scheme amongst new and existing employees
- answer all LGPS member pension entitlement questions promptly
- develop the partnership between the Pension Fund's administration team and the employing bodies
- liaise with a range of other groups who have an interest in the scheme

Within the pension fund there are five groups of members with whom the Fund needs to communicate with:

1. Scheme Members
2. Prospective Scheme Members
3. Scheme Employers
4. Representatives of Members
5. Other Bodies

This Policy document sets out how we plan to communication with all five groups.

The Cardiff and Vale Pension Fund aims to use the most appropriate channel of communication for the audience receiving the information. In some circumstances this may mean using more than one channel.

Scheme Members

Scheme members include:

- **Active members** - currently contributing into the Fund
- **Deferred members** - benefits in scheme but not contributing
- **Pensioners -** receiving a pension

Fund Website

The Fund has developed an extensive website which sets out Scheme rules and regulations in a simple and easy to read format. Information updates and news items are quickly added to notify members of any Scheme changes. Electronic copies of the Fund's leaflets, forms, booklets, policy documents and reports are also readily available. The Fund's Annual Report and Accounts are available, plus all key governance documents.

Annual Report and Accounts

An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members on the website. Hard copies are also available on request.

Newsletter

The Fund will issue a newsletter to active Scheme members of the Fund on an ad hoc basis, which will cover current pension topics within the Local Government Pension Scheme and wider pensions industry.

We send an annual newsletter to all pensioners every April, giving them details of their annual pension increase, the payment dates for the new financial year, plus any other relevant pension information.

Annual Benefits Statement

Annual Benefits Statements are sent to all Active members' home addresses showing them the current value of their pension as at 31 March. Plus, a projection figure to Normal Pension Age (NPA) and current value of death benefit.

We also send Annual Benefit Statements to our deferred members' which gives them the current value of their pension at every April (the date the pension was last increased in line with the appropriate cost of living index).

Supplementary notes are provide with both Annual benefits Statements and Notes for Guidance are published on our website for additional support.

Scheme Literature

Cardiff and Vale of Glamorgan Pension Fund produce an extensive range of Scheme literature, which are available to all Employers and Scheme Members in both English and Welsh. All literature is updated regularly, to keep up to date with regulation changes and available on the Pension Fund's website.

Pension Increase Statements

Annual Pension Increase statements are sent to all pensioners informing them of the percentage rate their pension will increase, and also the new pension payment for the new financial year.

Retirement Figures
Deferred members contact us 6 weeks before their retirement date and retirement figures are sent to their home address.

Statutory Notifications
In Compliance with Scheme Regulations, members are notified when any change occurs to their pension record which will affect their pension benefits.

Correspondence
The Fund uses both surface mail and email to receive and send correspondence. Response will be sent in the individuals preferred language of choice.

Payment Advice/P60
All Pensioners are issued with payment advice pay slips every April (together with their Pension Increase newsletter). Payslips are only sent throughout the year if their net pension changes by £10 or more.

P60 notifications are sent out annually (usually in April or May) and provide members with a breakdown of the payments they have received over the last complete financial year.

Prospective scheme members

Scheme Leaflet
All prospective Scheme members are provided with a Scheme brochure, which explains the benefits of joining the LGPS. This brochure is sent by the Human Resources Team when their employment contract is sent to new employees.

Pension Website
The Fund's website has a dedicated section for non-members, where it highlights the benefits of the Scheme and the importance of planning for retirement. Giving all non-members the information, they need to make an informed decision.

Scheme Employers

The Fund communicates with its participating employers in several ways to help them meet their responsibilities as Scheme Employers.

Annual Employer Forum
We hold an Employer Forum meeting every year for all Scheme Employers, where Fund Managers discuss:

- Detailed investment update

- Financial and administrative reports
- Any relevant procedural/legislative changes
- Triennial valuation
- Guest speakers who will be able to upskill our Employers

The Communications and Training Officer will make periodic visits to the Employers address to discuss issues as and when they arise.

All Employers need to supply pay and contribution data to the pension scheme, within deadlines and in the format specified by the Pensions Team.

All employers within the Scheme, and their Human Resources functions, play a key role in informing the pension team of the new starters, leavers, retirements etc. Employers are also responsible for providing information on the pension scheme to their employees.

Annual Report and Accounts
The audited accounts of the Cardiff and Vale of Glamorgan Pension Fund are prepared as at 31 March each year. A copy of the Fund's Annual Report, which includes the accounts, is posted on the Fund website.

Pension Administration Strategy
The Administration Strategy defines the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme.

The Strategy sets out the level of performance expected from the Cardiff and Vale Pension Fund and all employers, as well as the consequence of not meeting statutory deadline.

Website
The Fund website has a dedicated employer area to provide employers with the guidance needed to effectively discharge their administrative responsibilities and will include updates and forms which can be downloaded.

Updates
Regulatory and administrative updates are frequently issued to all employers by email.

Training
Bespoke training sessions can be delivered on request by the dedicated Communication & Training Officer to resolve any administrative issues identified by the employer.

Pension Board
The Fund's Local Pension Board was established on 1st April 2015. The Board includes three Employer member representatives who participate in the Board's role of assisting the Scheme Manager as well as an independent Chair and three Scheme Member representatives. Each Board member has received appropriate induction and training and will be kept up to date with national and local developments in the LGPS. The names and contact details of the Employer member representatives are available on the Cardiff and Vale Pension Fund website.

Member Representatives

Trade Unions

Trade Unions in South Wales are valuable ambassadors for the Pension Scheme. They deliver details of the Local Government Pension Scheme's to their members by local representative. They also assist in negotiation under TUPE transfers to ensure, whenever possible, continued access to the Local Government Pension Scheme.

A Trade Union Forum is held annually. Representatives of the local trade union branches receive presentations on the Fund's Annual Report, the performance of its investments and other current issues.

Pension Board

The Fund's Local Pension Board was established on 1st April 2015. In addition to the three Employer member representatives outlined above and an independent Chair, the Board also includes three scheme member representatives who participate in the Board's role of assisting the Scheme Manager. Each Board member has received appropriate induction and training and will be kept up to date with national and local developments in the LGPS. The names and contact details of the scheme member representatives are available on the Cardiff and Vale Pension Fund website.

Other Bodies

The Pensions Administration Team are also actively involved with other various groups who have an interest in the LGPS.

Department for Levelling Up, Housing and Communities

This Government Department are responsible for amending the Scheme regulations following consultation with all local authorities, and some employers. The Fund takes part in these exercises as and when necessary.

We also have involvement with the **Local Government Association (LGA)** and **National Association of Pension Funds (NAPF).** The Fund is also a member of the **Local Authority Pension Fund Forum (LAPFF).**

All Wales Pensions Officer's Group

Pension Officers from all the Welsh administering authorities meet regularly to discuss and share information. This ensures uniform interpretation of the LGPS and other prevailing regulations.

Wales Pension Partnership (WPP)

Since the proposals for a Wales Investment Pool were approved by the Minister for Local Government in November 2016 this Fund has worked closely with the other Welsh Local government Pension Funds to develop specific partnership investment arrangements. A number of sub-funds have been launched since the inception of the WPP and work continues in developing other shared investment opportunities, particularly for alternative investments. The development of the WPP has allowed the Funds to develop consistent communications across areas such as Responsible Investment and Voting and Engagement policies.

Seminars
Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

General Information

Data Protection
To protect any personal information held on computer, the Cardiff and Vale of Glamorgan Pension Fund, is registered under the Data Protection Act 2018. This allows members to check that their details held are accurate. The Fund's Privacy Notices are published on the Pension Fund website.

National Fraud Initiative
The Authority are under a duty to protect the public funds it administers and may use information for the prevention and detection of fraud.

General
Whilst this Policy Statement outlines the communication approaches adopted by the Cardiff and Vale of Glamorgan Pension Fund there are roles and responsibilities which fall on Scheme members, perspective scheme members and participating Scheme employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

Policy Review
This statement will be revised if these are any material changes in Cardiff and Vale of Glamorgan Pension Fund's Communication Policy but will be reviewed on an annual basis.

How to get in contact with us
If you have a question or would like some more information about The Cardiff and Vale of Glamorgan Pension Fund please contact us.

By email: pensions@cardiff.gov.uk

By phone: 029 2087 2334
open Monday to Thursday from 8.30am to 5pm, and Friday 8.30am to 4.30pm

By Post: Pensions Team
Room 252
County Hall
Atlantic Wharf
Cardiff
CF10 4UW

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Pensions Complaints and Compliments Policy

Pensions Complaints and Compliments Policy

Comments, Complaints and Compliments

We are committed to dealing effectively with any complaints you have about our services. If we have made a mistake we will apologise and try to put things right as soon as possible.

We review complaints regularly and include in the Funds annual report with information about the number and type of complaints we have received. Wherever, possible, we use this information to improve the way we do things. We also welcome comments and compliments about the services we have provided.

How to make a comment, complaint, or compliment

We want it to be a simple and convenient for you to complain, make a comment or pay us a compliment. We welcome complaints in both English and Welsh, and we will respond to you in the same language.

You can send your comments, complaints, or compliments to pensions@cardiff.gov.uk or you can write to Pensions Team, Room 252, County Hall, Atlantic Wharf, Cardiff, CF10 4UW

How we will respond

If we receive a complaint from you, we will:

- Acknowledge your complaint within 5 working days, from date of receipt of the letter or email
- Aim to resolve the complaint within 20 working days, from date of receipt of the letter or email. If your complaint is complex, we may need more time to resolve.
- If we do need more than 20 working days to resolve your complaint, we will contact you within the 20 working days and tell you how long we expect it to take and continue to give you regular updates in this period.

We will respect your right to confidentiality and privacy, and we will treat you fairly and in accordance with or commitment to equality.

The person who is investigating your concerns will firstly aim to establish the facts. In some instances, we may ask to meet you to discuss your concerns.

How we will communicate the outcome

If we formally investigate your complaint, we will let you know what we have found and we will use your preferred form of communication, such as letter or email, when we contact you,

If necessary, we will produce a longer report. We will explain how and why we came to our conclusions.

If we find we have done something wrong, we will tell you this, explain what happened and apologise. If we find there is a fault in our systems or the way we do things, we will tell you what it is and how we plan to make changes to prevent the same thing happening again.

What we expect from you

We believe that all complaints have the right to be heard, understood, and respected. However, our employees have the same rights, and we will not tolerate unacceptable behaviour such as aggressive or abusive behaviour or unreasonable demands.

Who else can help me with my complaint?

You have the right to refer your complaint to **The Pensions Ombudsman (TPO)** free of charge.

The Pensions Ombudsman deals with complaints and disputes which concern the administration and /or management of occupational pension schemes.

Contact with The Pensions Ombudsman about a complaint needs to me made within three years of when the event(s) you are complaining about happened – or, if after, within three years of when you first knew about it (or ought to have known about it). There is discretion for those time limits to be extended.

The Pensions Ombudsman can be contacted at:

Address: 10 South Colonnade, Canary Wharf, London E14 4PU
Tel: 0800 917 4487 Overseas: +44 (0) 207 630 2200
Email: enquiries@pensions-ombudsman.org.uk
Website: www.pensions-ombudsman.org.uk

If you have any general requests for information or guidance concerning your pension arrangements, you can contact Money and Pensions Service

The Money and Pensions Service can be contacted at:

Address: 120 Holborn, London, EC1N 2TD
Tel: 0800 138 7777
Email: contact@maps.org.uk
Website: www.moneyandpensionsservice.org.uk

The **Pension Regulator (TPR)** is a pension's watchdog which makes sure schemes are run properly and protects members against fraud. Anyone who is worried about a scheme can report to The Pensions Regulator.

The Pension Regulator can be contacted at:

Tel: 0345 600 0707
Website: www.thepensionregulator.gov.uk/

Frequently Asked Questions (FAQs)

1. **Are there any time limits I should be aware of?**
   Normally, we will only be able to look at your complaint if you tell us about it within 6 months of the date that you first became aware of the problem. However, we may still consider your complaint if you provide strong reasons for taking longer than six months to tell us about the problem. In any event, regardless of the circumstances, we will not consider any concerns about matters that took place more than twelve months ago.

2. **What if my complaint involves more than one organisation or department?**
   If your complaint involves more than one department, we will ask each department to prepare a response and, where possible, we will incorporate these into one letter.

   If your complaint involves more than one organisation, we will work with these organisations to address your complaint and to decide who will take the lead in dealing with and responding to your concerns.

3. **Are there any complaints that are not covered by this policy?**
   This policy does not apply if the complaint relates to a Freedom of Information or Data Protection request because there is a separate process for making complaints about this service.

   You can register these complaints by:
   - Emailing: FOI@cardiff.gov.uk
   - Visiting the Council website at www.cardiff.gov.uk
   - Writing to improvement & Information, Cardiff Council, County Hall, Atlantic Wharf, Cardiff, CF10 4UW

   If you disagree with a decision made by your Employer or the Pension Fund in relation to your benefits from the Local Government Pensions Scheme (LGPS), then there is a two stage complaints process in place known as the Internal Disputes Resolution Procedure (IDRP).

   You can make a complaint under the IDRP if you are:

   ✓ A **Prospective Member**, who is thinking of joining the Scheme
   ✓ An **Active Member**, who is currently contributing to the Scheme
   ✓ A **Deferred Member**, who has left the Scheme, but your benefits remain in the Pension Fund
   ✓ A **Pension Member**, who is currently in receipt of a pension benefit from the Pension Fund

   When making your complaint you can choose someone else to represent your case – a friend, solicitor, or union representative for example.

If you wish to make a complaint under IDRP, you should complain in writing to whoever you think is at fault, either your employer or Pension Fund, by completing the IDRP application forms, within 6 months of the problem arising.

How to get in contact with us
If you have a question or would like some more information about The Cardiff and Vale of Glamorgan Pension Fund, please contact us.

By email: pensions@cardiff.gov.uk

By phone: 029 2087 2334
open Monday to Thursday from 8.30am to 5pm, and Friday 8.30am to 4.30pm

By Post: Pensions Team, Room 252, County Hall, Atlantic Wharf, Cardiff, CF10 4UW

Cardiff & Vale of Glamorgan
Pension Fund

PENSION ADMINISTRATION STRATEGY

Pension Administration Strategy

Introduction

The Pensions Administration Strategy compliments the efficient operation of the Cardiff and Vale of Glamorgan Pension Fund on the behalf of its Employing Authorities and the Administering Authority, Cardiff Council.

The objective of the strategy is to clearly define the roles and responsibilities of the Cardiff and Vale of Glamorgan Pension Fund and the Employing Authorities under the Local Government Pension Scheme (LGPS) Regulations.

These regulatory requirements are detailed below:

The Regulations

In accordance with regulation 59 of the Local Government Pension Scheme Regulations 2013:

1. An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ('its pension administration strategy') and, where it does so, paragraphs (3) to (7) apply.

2. The matters are:

(a) procedures for liaison and communication with employing authorities in relation to which it is the administering authority ('its employing authorities')

(b) the establishment of levels of performance which the administering authority and its employing authorities are expected to achieve in carrying out their Scheme functions by:

- setting performance targets
- making agreements about levels of performance and associated matters
- or other means as the administering authority considers appropriate

(c) procedures to secure the administering authority and its employing authorities comply with statutory requirements in respect of those functions and with any agreement about levels of performance

(d) procedures for improving communication of related information between the administering authority and all employing authorities

(e) circumstances when the administering authority may consider giving written notice to any of its employing authorities under regulation 70 on account of that authority's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b)

(f) administering authority will publish performance data in its annual reports dealing with

(g) and such other matters as appear to the administering authority, after consulting its employing authorities and such other persons as it considers appropriate, to be suitable for inclusion in that strategy

3. An administering authority must:

- keep its pension administration strategy under review and as a minimum update annually
- make revisions as appropriate, following a material change in its policies in relation to any of the matters contained in the strategy
- these will be considered by the Pension Board and Committee

4. In preparing or reviewing and revising its pension administration strategy, an administering authority must consult its employing authorities and such other persons as it considers appropriate.

5. An administering authority must publish:

- its pension administration strategy
- and where revisions are made to it

6. When an administering authority publishes its pension administration strategy, or that strategy is revised, it must send a copy of it to each of its employing authorities and to the Secretary of State.

7. An administering authority and its employing authorities must have regard to the current version of any pension administration strategy when carrying out their Scheme functions.

8. In this regulation references to the functions of an administering authority include, where applicable, its functions as an employing authority.

The Administration Strategy

This strategy formulates the administrative arrangements between the Cardiff and Vale of Glamorgan Pension Fund and the participating Employing Authorities. With the introduction of this framework, the aim is to enhance the flow of data by having clear channels of communication in place, so each authority is fully aware of its role and responsibilities within this process, as outlined by the LGPS provisions.

The relevant procedures are outlined as follows.

Procedures for liaison and communication with Employing Authorities

- The employer will nominate a person to act as the 'Employer Representative' and the Cardiff and Vale of Glamorgan Pension Fund's primary contact. The employer will notify the Cardiff and Vale of Glamorgan Pension Fund who that person is and ensure that any changes are sent to Cardiff and Vale of Glamorgan Pension Fund immediately.
- The Cardiff and Vale of Glamorgan Pension Fund employs a multi-channel approach in liaising and communicating with employing authorities to ensure that all requirements are consistently met.
- The various channels of communication employed by the Fund include:

    - The Cardiff and Vale of Glamorgan Pension Fund website, which includes a specific section for each stakeholder and the Fund's employing authorities.

    - Periodic newsletters, which are issued to all scheme members and all employing authorities. The newsletter is published via the My Cardiff and Vale Pension online service and delivered directly to each non-user's home address, as well as being published on the Cardiff and Vale of Glamorgan Pension Fund website.

    - Email updates, sent directly to employer representatives to provide notification of any scheme / administrative developments.

    - Employer updates seminars and training groups; held when required to review scheme developments or to resolve any training needs.

    - An Annual Employer Forum will be held to review the investment and administrative issues that the Cardiff and Vale of Glamorgan Pension Fund has experienced during the preceding 12 months, and to look forward at the challenges that lie ahead for the next 12 months.

    - Employer representatives distribute information supplied by the Cardiff and Vale of Glamorgan Pension Fund to scheme members within their organisation i.e., scheme guides, factsheets etc.

    - An annual report: issued by the Cardiff and Vale of Glamorgan Pension Fund to illustrate the extent to which the Fund and Employing Authorities have achieved the levels of performance established under this strategy and such other matters arising from the pension administration strategy as considered appropriate.

Levels of performance

The Cardiff and Vale of Glamorgan Pension Fund and participating Employing Authorities will have regard to the Pension Administration Strategy when carrying out their respective functions.

Levels of performance for Employing Authorities

The employer must supply notifications (or approved alternatives) to Cardiff and Vale of Glamorgan Pension Fund as follows:

- **New Starters** - within **1 month** of the employee joining the scheme
- **Changes in Member Circumstances** - within **1 month** of the event
- **Early Leavers** - within **1 month** of the employee leaving the scheme
- **Retirement Notifications** - must be received at least **8 weeks** before the last day of employment
- **Death in Service** - within **1 week** of the death of the member

Employers will supply all new employees eligible to join the Local Government Pension Scheme with a copy of the employees' brochure to the pension scheme within **2 months** of becoming employed.

The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 require that for retirements before Normal Pension Age (NPA), the member must receive their benefits no later than two months after retirement and for retirements after Normal Pension Age (NPA), no later than one month after the date of retirement.

Employers will provide the Cardiff and Vale of Glamorgan Pension Fund with a year-end data return as at 31 March each year in an approved format no later than **30 April** of that year or the next working day.

The employer will ensure that member and employer contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity leave, and any additional contributions the Cardiff and Vale of Glamorgan Pension Fund request the employer to collect.

The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for publishing its policy in respect of the key discretions as required by the regulations to its employees and to the administering authority. The Cardiff and Vale of Glamorgan Pension Fund is **NOT** responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

Any over-payment resulting from inaccurate information supplied by the employer shall be recovered from the employer.

In the event of the Cardiff and Vale of Glamorgan Pension Fund being levied by The Pensions Regulator, the charge will be passed on to the relevant employer where that employer's action or inaction (e.g., the failure to notify a retirement within the time limits described above), cause the levy.

Under the GDPR Data Protection Act 2018, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from the Cardiff and Vale of Glamorgan Pension Fund. It will also only use information supplied or made available by the Cardiff and Vale of Glamorgan Pension Fund for the operation of the Local Government Pension Scheme.

Levels of performance for the Cardiff and Vale of Glamorgan Pension Fund

The Cardiff and Vale of Glamorgan Pension Fund will issue forms, newsletters, booklets, and such other materials as are necessary for the administration of the Scheme.

The Cardiff and Vale of Glamorgan Pension Fund will support employers in running the Local Government Pension Scheme by:

- providing representatives with information and assistance on the scheme and its administration.

- distributing regular technical information to the relevant representative(s).

By working co-operatively with employers, the Cardiff and Vale of Glamorgan Pension Fund aims to:

- pay the retirement grant (lump sum) into the member’s bank account no later than 4 weeks after the member’s date of retirement.

- accept the member contribution rate calculated by the employer.

The Cardiff and Vale of Glamorgan Pension Fund will produce benefit statements for members each year where the employer has submitted useable and accurate year-end financial data.

The Cardiff and Vale of Glamorgan Pension Fund will supply any information to employers necessary to ensure the effective operation of the Pension Fund.

The Cardiff and Vale of Glamorgan Pension Fund will work with employers to ensure that the retirement process is as efficient as possible for both the member and employer.

The Cardiff and Vale of Glamorgan Pension Fund is responsible for exercising the discretionary powers given to it by the regulations. The Cardiff and Vale of Glamorgan Pension Fund is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.

The Cardiff and Vale of Glamorgan Pension Fund aims to provide a service to members that meet the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.

Under the GDPR Data Protection Act 2018, Cardiff and Vale of Glamorgan Pension Fund will protect from improper disclosure any information held about a member. Information held will be used by, or on behalf of Cardiff and Vale of Glamorgan Pension Fund Pension Fund for the operation of the Local Government Pension Scheme. Full details of our Data Protection Notice can be found on the Cardiff and Vale of Glamorgan Pension Website.

Payments by Employing Authorities to the Cardiff and Vale of Glamorgan Pension Fund

Employing authorities will make all payments required under the Local Government Pension Scheme, and any related legislation, promptly to the Cardiff and Vale of Glamorgan Pension Fund and/or its Additional Voluntary Contribution provider(s) as appropriate.

Payment Dates

For employing authorities that contribute on a monthly basis, contributions can be paid over at any time, but the latest date is the 19th of the month immediately following the month in which deductions were made. For example, contributions deducted in April must be received by the Cardiff and Vale of Glamorgan Pension Fund by 19th May at the latest. Where the 19th falls on a weekend or Bank Holiday, the due date becomes the last working day prior to the 19th.

Please note that the employer will pay additional voluntary contributions to the relevant AVC Provider within one week of them being deducted.

Late Payment

The employer is reported to The Pensions Regulator where contributions are received late in accordance with the regulators code of practice.

Payment Method

Contributions (but not Additional Voluntary Contributions) should be paid to the Cardiff and Vale of Glamorgan Pension Fund on a monthly basis.

Payments should be made by CHAPS or BACS and paid into our Natwest Bank Account.

Remittance Advices

The employer must submit an advice slip with their payment stating the month and the amount of the payment split between Employees' and the Employer's contributions.

Interest on late payments

In accordance with the LGPS Regulations, interest will be charged on any amount overdue from an employing authority by more than one month.

Interest will be calculated at 1% above base rate on a day-to-day basis from the due date to the date of payment and compounded with three-monthly rests.

Additional costs incurred as a result of Employing Authority's level of performance

Where additional costs have been incurred by the Cardiff and Vale of Glamorgan Pension Fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority.

The Cardiff and Vale of Glamorgan Pension Fund will give written notice to the employing authority stating:

- the reasons for the additional cost incurred
- that the employing authority should pay the additional costs incurred by that authority's level of performance
- the basis on which the specified amount is calculated
- the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen

Any disagreement regarding the amount of additional cost being recovered will be decided by the Secretary of State who will have regard to:

- the provisions of the pension administration strategy that are relevant to the case
- the extent to which the Cardiff and Vale of Glamorgan Pension Fund and the employing authority have complied with those provisions in carrying out their functions under these Regulations.

Review of the Pension Administration Strategy

This Strategy will be kept under periodic review by the Administering Authority.

- The Cardiff and Vale of Glamorgan Pension Fund will constantly seek to improve communications between itself and employing authorities.
- Employers may make suggestions to improve the Pension Administration Strategy for consideration by the Cardiff and Vale of Glamorgan Pension Fund at any time.
- The Cardiff and Vale of Glamorgan Pension Fund will revise the Pension Administration Strategy after consulting with employing authorities and any other persons considered appropriate following a material change in any policy covered in the strategy. The

strategy will be published on the Cardiff and Vale of Glamorgan Pension Fund website, and a copy will be issued to each Employing Authority and the Secretary of State.

- If the strategy is to be updated following review, each Employing Authority will be notified, as will the Secretary of State, and a revised version will be published on the Cardiff and Vale of Glamorgan Pension Fund website.

- Employers are welcome to discuss any aspect of the Pension Administration Strategy with the Cardiff and Vale of Glamorgan Pension Fund at any time. Employers are welcome to contact the Cardiff and Vale of Glamorgan Pension Fund at any time by using the contact details as provided overleaf.

Employer Contributions Rates and Administration Costs

- Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

- The Cardiff and Vale of Glamorgan Pension Fund has an actuarial valuation undertaken every three years by the Fund's actuary. The actuary balances the funds' assets and liabilities in respect of each employer and assesses the appropriate contribution rate for each employer to be applied for the subsequent three-year period.

- The costs associated with the administration of the scheme are charged directly to the Cardiff and Vale of Glamorgan Pension Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

- If an employer wishes the Cardiff and Vale of Glamorgan Pension Fund to carry out work not attributable to administration, they will be charged directly for the cost of that work.

How to get in contact with us

If you have a question or would like some more information about The Cardiff and Vale of Glamorgan Pension Fund, please contact us.

By email: pensions@cardiff.gov.uk

By phone: 029 2087 2334
Open Monday to Thursday from 8.30am to 5pm, and Friday 8.30am to 4.30pm

By Post: Pensions Team
Room 252
County Hall
Atlantic Wharf
Cardiff
CF10 4UW

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CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 6 FEBRUARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM : 8

PENSION FUND RISK REGISTER

Reason for this Report

1. To review the current Risk Register for the Pension Fund.

Background

2. A Risk Register for the Pension Fund is maintained as part of the Corporate Risk Management process. The Register covers all aspects of management of the Fund including Investments, Funding, Governance and Administration.

Issues

3. The Risk Register is regularly reviewed by Fund officers and is also presented to the Local Pension Board for their review. The Risk Register was considered by the Pension Board at its meeting on 24 January 2023. A number of incremental changes were proposed to the Register presented to the Board at that meeting and these are listed below :-
    - P1 : addition of short term inflation provision in March 2022 Valuation
    - P2 : Consolidation of review of WPP investments into "Current Controls"
    - P3 : Reference to new WPP Sub-funds – Private Credit, Infrastructure and Sustainable Equity – enhancing the diversification of the Fund's Investments.
    - P5 : enhanced focus on in-house training
    - P10 : Amendments to FSS to include arrangements for Employers with a surplus
    - P13 – Discussions taking place with the two remaining Employers not yet live on i-connect.
    - P15 : Updated timeline following Officers contact with Mercer.
    - P19 : Update on McCloud activity
    - P20 : Update on Recruitment activity
    - P21 : reference to Sustainable Active Equity Fund and potential for the Fund to set a Net Zero target.

4. Following a discussion of the Risk Register at the 24 January no further changes were proposed for the Risk Register. The current Risk Register including the above amendments is attached as Appendix 1 with the standard Risk Matrix used for the Council's Corporate Risk Register attached as Appendix 2.

Legal Implications

5. The Pensions Committee terms of reference include, ' *To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:…*
e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.' To this end, this report, in effect, requests that the Committee considers the contents of the attached Risk Register for the Pension Fund, which is maintained as part of the Corporate Risk Management process

The general legal advice set out below should be considered.

General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

Financial Implications

6. There are no financial implications arising directly from this report.

Recommendations

7. That the Committee notes the contents of the Risk Register.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendices:
Appendix 1 Risk Register February 2023
Appendix 2 Risk Matrix

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Ref	Risk Description (Consider Risk Cause & Risk Consequences)	Inherent Risk			Current Controls	Residual Risk			Proposed Improvement Actions	Risk Reduction Target Date	Owner	Status
		Likelihood	Consequence	Priority		Likelihood	Consequence	Priority				
Pensions												
P1	That the Pension Fund's investment strategy is not managed with reference to the long-term growth in the Fund's liabilities	B	1	High - Red	Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contributions are set in response to this. An asset-liability study may be commissioned if there is evidence of a clear shift in the balance between assets and liabilities The Investment Panel considers whether any changes are required to strategic asset allocation. The investment strategy is summarised in the Investment Strategy Statement The liabilities of admitted bodies are monitored to ensure that large deficits do not accrue, which would be unaffordable should the employer leave the Fund	C	2	Medium - Red / Amber	Continuing engagement with Fund actuaries to understand impact of financial and demographic factors on the Fund's liabilities. Aon have included a provision in the 2022 tri-annual valuation calculations to cover the 10% CPI inflation at September 2022	31-Mar-23 Ongoing Ongoing	Marc Falconer	
P2	Inadequate medium term performance from selecting inappropriate fund managers or asset allocation	B	2	High - Red	Although the Fund remains responsible for setting its own investment strategy it is increasingly using Wales Pension Partnership (WPP) products to deliver its strategy as all listed fund assets have now transitioned to WPP. For the WPP both Link and Russell have been appointed through open tender and management agreements for the specific funds include clear performance targets. The procurement of Private Market Allocator(s) is now well advanced. Manager performance is reviewed by both this funds Investment Advisory Panel and the WPP OWG and JGC. Consolidation of WPP Funds have now been incorporated into the regular Investment Panel review cycle with both Russell and Link FS presenting to the Panel on a number of occasions during 2021 and 2022. The Investment Panel advise target ranges for strategic asset allocations. Although the Fund's main objective is long-term growth, the diversification provided by adopting a range of asset classes and fund managers should help to mitigate the impact of poor performance from any particular account or sub-manager.	C	2	Medium - Red / Amber	Maintain relationships with managers both directly appointed by the Fund and WPP Funds. going forward periods of transition activity into the WPP pool will be limited to Private Market Assets. Continue to review any impacts of Brexit especially any that will have a long term impact on the investment performance of the Fund. Monitor any impacts on the Fund following the Russian invasion of Ukraine in Feb 2022 and the subsequent decision to dis-invest in Russian stocks Minimal impact on Fund following Autumn fall in UK Govt. Gilt prices.	Ongoing	Marc Falconer	
P3	Additional risks and costs to the Fund from poorly structured investment arrangements including with WPP sub-funds	B	3	Medium - Red / Amber	The Fund attempts to ensure best value in the following ways: • Regular Reports to the Investment Panel on asset valuation and manager performance. • Use of specialist services considered to reduce costs where appropriate (e.g. for transitions and currency transfers). • Custodian arrangements are reviewed or re-tendered when appropriate.	C	3	Medium - Amber / Green	All listed Assets now invested in WPP sub-funds bringing the benefits of diversification with a multi manager approach across the board compared to the Fund's legacy assets single manager approach. Monitoring and review processes for assets managed by WPP now incorporated into the regular Investment Panel meetings as well as being standard items on the agenda for the quarterly WPP JGC and OWG meetings. Fund Investments to be further diversified by forthcoming investments into the new WPP Private Credit and (open-ended) Infrastructure sub-funds as well as the Sustainable Active Equity Fund.	Ongoing	Marc Falconer	
P4	Collapse of an Investment Manager involving our portfolio	C	1	Medium - Red / Amber	• All listed Assets are now managed by WPP so the Fund, will consider the due diligence activity undertaken by Link and Russell on behalf of WPP. • All Listed assets are managed through the Fund's custodian to ensure they remain segregated from the manager. • The risk that a manager cannot provide a service during windup will be mitigated by the appointment of a Transition Manager to transfer assets efficiently to a new manager.	C	2	Medium - Red / Amber	The Pool Operator is regulated by FCA and the Pool Custodian will ensure segregation of assets. Consideration to be given for the custodian role to be extended to cover Property and Private Equity assets The diversification benefits of the multi-manager approach adopted by WPP Funds has been highlighted in P3 e.g WPP EM Fund has 6 sub-managers operating under Russell whereas the legacy fund was a single manager. Implications of change of ownership of Link Group and Woodford related investigation of Link by FCA to be kept under review	Ongoing	Marc Falconer	
P5	MIFID II leads to restrictions on the investment products available to the Fund	A	1	High - Red	Collaboration with investment managers, the Pool Operator, other LGPS funds and the LGA to ensure that the Fund is classified as a Professional Investor by all its managers and the Pool.	C	3	Medium - Amber / Green	Training will be the subject of renew attention when the composition of the Pension Committee is confirmed following the May 2022 elections. Focus will be across the board with consideration on provision of training to Officers, Committee and board members as appropriate. Quarterly training provided by WPP is now well integrated into training resouces available. Appropriate Training Records to be maintained Officers have returned to in-person conferences Enhanced Focus on In-house Training for Pension Committee (and Board) members during 2023.	Ongoing	Marc Falconer	
P7	Pension Fund Annual Accounts and Report are not produced in compliance with statutory requirements, in line with accounting standards or in line with audit timetable.	B	2	High - Red	The Fund's Custodian provides assurance on the accuracy of investment records (except for property and private equity). Records of benefits paid, contributions received and other expenses are held on SAP. The Group Accountant liaises with external audit and manages the closure process.	C	4	Low - Green	Regular meetings during the financial year between Accountancy and pensions staff to ensure any issues are identified and resolved before year end.	Ongoing	Marc Falconer	
P8	Failure to adhere to LGPS Regulations	B	2	High - Red	• Investment regulations are considered when setting the ISS • Senior Technical Officer undertakes Altair system checks to ensure compliance with LGPS regulations • Team leaders/supervisors, ensure legislative accuracy of calculations • Network Groups (Altair/Communications/All wales Pensions Officer Group) • Comms & Training Officer – responsible for the update of website and online guides. Inform employers of any changes in regulations.	C	2	Medium - Red / Amber	Engagement with Local Pension Board to develop reporting processes	Ongoing	Marc Falconer / Karen O'Donoghue-Harris	
P9	Failure to communicate with stakeholders	B	3	Medium - Red / Amber	• Contact list for employers updated regularly • Annual Employers' Forum held in person (Dec 2022) • Trade Union Forum incorporated into Employers Forum • Annual report and accounts • Member newsletters • Dedicated Communication and Training Officer post established • Look to use all available communication channels • Completed roll-out of member self service facilities for Active Members for Employers using Iconnect.	C	4	Low - Green	Maintain and update Fund website Roll-out of MSS to Deferred Members to be considered when resources are in place. Engagement with employers through site visits and promotion of Employers' Forum. Seek regular approval of the Pension Administration Strategy and Communication Policy	Ongoing	Marc Falconer / Karen O'Donoghue-Harris	
P10	Withdrawal/default of an employer	B	2	High - Red	• Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. • Actuarial valuation aims to balance recovery period with risk of withdrawal • Applications for admission to the Fund are considered carefully and guarantees put in place if required	B	3	Medium - Red / Amber	Improve engagement with admitted bodies where withdrawal is a possibility. Refuse new applications for admission except where there is an obligation to protect rights of employees transferred under TUPE Nov 21 FSS includes drafting to permit the use of Deferred Debt arrangements and other Employer Flexibilities where exit from Pension Fund is being considered. Dec 22 update to FSS include arrangements for Employers with large Pension surpluses	Ongoing	Marc Falconer	
P11	Timeliness and accuracy of pension payments including risks arising from maintaining two separate data recording systems	B	2	High - Red	• Monthly Pensions are paid by the Council's Pay Centre • Payroll deadline procedures in place • Authorisation of benefits following calculations • Additional checks by Payroll • Review of all payroll amendments • Ensure all new monthly pension starter listings match amounts on Altair • Run monthly SPA reports • When someone hits SPA, update Altair and Payroll with GMP details	C	3	Medium - Amber / Green	• Review configuration of systems • Recommend purchasing Altair Payroll to replace SAP	Ongoing	Karen O'Donoghue-Harris	
P12	Pensions continue to be paid to deceased pensioners	B	2	High - Red	• Monthly ATMOS reviews and Tell Us Once data exchanges match pensioner details with national deaths register • Pensioners incorporated into National Fraud Initiative • Annual life certificates required from pensioners living overseas Tell Us Once database is being updated monthly via the LGPS NI database. • Further targeted checks with credit reference agencies as appropriate	D	4	Low - Green	Keep current controls under review and adapt or change as required.	Ongoing	Karen O'Donoghue-Harris	
P13	Membership data is not recorded accurately	A	2	High - Red	• Senior Officers liaise closely with employers to ensure timely and accurate submission of data • I-Connect ensures that data from employers is identified by a direct transfer from payroll on a monthly basis • Data accuracy checks undertaken by the pension section • Data validation checks also undertaken by the Fund Actuary at the triennial valuation.	B	3	Medium - Red / Amber	Discussion in place with the two remaining employers to go live on i-connect	Ongoing	Karen O'Donoghue-Harris	
P14	Breach of GDPR legislation	A	1	High - Red	Information issued to Fund members and published on website; Pensions staff trained on handling personal data; Memo of Understanding issued to Fund employers; contracts with service providers Updated MoU has been sent to Employers	B	3	Medium - Red / Amber	Monitoring and supervision of staff, regular communications to Fund employers	Ongoing	Karen O'Donoghue-Harris	
P15	Failure to complete GMP Reconciliation resulting in inaccurate payments to pensioners	A	2	High - Red	• Regular update meetings with JLT • Prompt resolution of cases referred back to Fund • Fund decision made on stalemate cases • Agreed Action Plan in place • Critical task and timelines agreed • Target end date	C	3	Medium - Amber / Green	- closely monitor the key tasks that need to be completed - As any GMP adjustments are implemented, ensure there is a reconciliation between Altair and SAP. - Mercer have provided a draft Project Plan and as a combined group, taking into account the actions that are required it has been decided to complete the actual rectification calculations following the April 2022 Pensions Increase (because there is not sufficient time between now and March 2022 to complete all the tasks without introducing a higher risk. Officers contacted Mercer following the concerns raised over the delay in completing this exercise and Mercer have agreed that activity is to commence after Pension Increases in April with a target completion date of October 23	31-Oct-23	Karen O'Donoghue-Harris	
P16	Failure to deliver Annual Benefit Statements by statutory deadline of 31 August	A	2	High - Red	Member Self-Service will allow Active Members to update records and improve compliance.	C	3	Medium - Amber / Green	• For 22/23 Statements MSS to be used to enhance the service provided to Scheme members • MSS to be used for Active Members to upload statements ensuring higher compliance levels • Savings on printing and postage costs	Ongoing	Karen O'Donoghue-Harris	
P17	Cyber security	A	1	High - Red	Access to all systems is password protected, additional password protection for access to Altair all Staff have completed mandatory modules on cyber security ICT have undertaken an independent review of the Fund's cyber security and reported findings to Pension Board & Committee	B	2	High - Red	continue to follow advice from ICT and update procedures as required Staff continue to complete relevant new e-learning modules as well as considering relevant information from external organisations such as TPR.	Ongoing	Karen O'Donoghue-Harris	
P18	Exit Payment Cap	C	3	Medium - Amber / Green	• Warning still kept on costs estimates for Employers that these are provided under existing regulations and could be subject to change	C	4	Low - Green	If new regulations are tabled consideration will be given at that time to appropriate controls	Ongoing	Karen O'Donoghue-Harris	
P19	McCloud - huge administrative burden, failure to have correct resources to deal with the additional work	B	2	High - Red	• Employers warned at Employer forum that they will be required to supply missing data • A0N commissioned to run reports to identify affected members • LGA templates used to upload missing data • Templates issued to all employers • Deadline set for return of data	B	3	Medium - Red / Amber	• Use third party to assist with project management with external advice provision now included in Business Plan. • New staffing structure approval and recruitment process underway • Good progress with uploading data, all small employers completed now working on Cardiff Council	Ongoing	Karen O'Donoghue-Harris	
P20	Resource Implications - Pension Section has insufficient resources to respond to the multiple workload pressures facing the section e.g. McCloud, Exit Cap, Dashboards, etc. and recruitment and retention of staff	B	3	Medium - Red / Amber	• Scenario planning to be incorporated into 21/22 Business Plan to consider mix of additional resources required in particular what activities would require additional internal resources and what activities would be undertaken by external parties. • Use of external resources to provide additional short term capacity	B	2	High - Red	• continual monitoring of Pension section workload and updates to resource planning including business plan and budgets. • recruitment process for 6 additional staff has commenced with 2 senior offices appointed in November 21 and the remaining 4 post being readvertised in April/May 22 after an unsuccessful recruitment to fill all posts in December 21. Following 2 rounds of unsuccessful recruitment a further round of recruitment is taking place. Officers plan on looking at alternate recruitment opportunities to fill the vacant posts (Oct 22). Further recruitment round was unsuccessful so now looking at alternative approaches. Cardiff Works for Grade 3 with one applicant to start on 24 Jan & two more applicants to be interviewed. Grade 5 "CV" approach with Indeed being discussed with HR	Ongoing	Karen O'Donoghue-Harris	
P21	The Fund fails to adequately account for climate change, climate risk and ESG factors with Financial loss to assets held and potential for "stranded assets".	B	2	High - Red	Publication of a Responsible Investment policy and Climate Risk Policy both for the Fund and the WPP Transfer of funds to BlackRock Low Carbon Tracker Fund	B	3	Medium - Red / Amber	- continued evolution of WPP sub-funds that allows climate risk and other ESG factors to be managed e.g. proposals to introduce a de-carbonistion overlay to UK Opportunities Fund were implemented from June 2022. - WPP Sustainable equity sub-fund target launch date of March 2023 - Continued engagement and challegne to Investment Managers, especially via WPP (Robeco), on how they manage climate and ESG risks - reporting of suitable climate change and ESG metrics - continued training focus including with the WPP Voting and Engagement provider - WPP re-application for the FRC Stewardship code has been submitted (Oct 22) with outcome of application expected to be know early in 2023. - The Fund to consider whether it should have a net zero target.	Ongoing	Marc Falconer	

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Risk Matrix and Definitions

High Priority	Red - Significant management action, control, evaluation or improvements req
Medium Priority	Red / Amber - Seek cost effective management action, control, evaluation or i
Medium Priority	Amber / Green - Seek cost effective control improvements if possible and/or n
Low Priority	Green - Seek control improvements if possible and/or monitor and review

IMPACT

LIKELIHOOD		1	2	3	4
	A	A1	A2	A3	A4
	B	B1	B2	B3	B4
	C	C1	C2	C3	C4
	D	D1	D2	D3	D4
	E	E1	E2	E3	E4

LIKELIHOOD
A Very Likely
B Likely
C Possible
D Unlikely
E Very Unlikely

IMPACT
1 Major
2 significant
3 Moderate
4 Minor

mprovements with continued proactive monitoring.

CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE : 6 FEBRUARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 9

WALES PENSION PARTNERSHIP AND INVESTMENT UPDATE

Reason for this Report

1) The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.

2) This report has been prepared to update the Committee on progress towards the establishment of pooled investment arrangements for the eight LGPS funds in Wales under the oversight of the Wales Pensions Partnership. In addition brief updates on the current investments of the Fund and the Actuarial valuation as at 31 March 2022 will be provided.

Background

3) The Committee and Board has received regular updates on the development of the Wales Pension Partnership by the eight LGPS administering authorities in Wales. The proposals for a Wales Investment Pool were approved by the Minister for Local Government in November 2016.

4) A Joint Governance Committee (JGC) has been established by the eight administering authorities to provide oversight of the Pool. The JGC is supported by the Officer Working Group (OWG) comprising the Treasurers (Section 151 Officers) and Investment Officers of the eight funds. Link Fund Solutions have been appointed as the Pool Operator and Russell Investments will provide consultative services including advice on fund design and manager selection. Carmarthenshire Council have been approved as the Host Authority, providing administrative support to the WPP. Hymans Robertson were appointed, in January 2020, as Oversight Advisors to support the WPP in managing its relationship with Link and Russell Investments as well as providing advice on governance and strategic investment strategy. Robeco have been appointed Engagement and Voting Advisors and will assist the WPP in areas such as corporate governance and exercising the Partnerships voting rights in line with the Partnerships ambition to become a leader in Responsible Investment.

5) Three Equity Sub Funds had been launched prior to 2020/21 financial year, a UK Equity Fund and two Global Equity Funds, Global Growth and Global Opportunities. During 2020/21 five Fixed Income sub-funds were launched by the WPP with this Fund investing in 3 of the WPP Fixed Income sub-funds in August 2020. The Emerging Markets Equity Fund was launched in October 2021

Issues

6) As at 31st December 2022 the Fund had the following investments in seven WPP products, with the aggregate value of £1,606 million:-

   i. UK Opportunities Equity Fund - £229 million
   ii. Global Government Bond Fund - £225 million
   iii. Global Credit Fund - £194 million
   iv. Multi Asset Credit Fund - £137 million
   v. Global Opportunities Equity Fund - £514 million
   vi. Global Growth Equity Fund- £199 million
   vii. Emerging Markets Equity Fund- £108 million

   The value of the Funds' assets held in WPP products now represents 63% of the total fund valuation of £2,608 million as at 30th November 2022. If the Blackrock Low Carbon Tracker Fund holding is included, then the proportion increases to 86% of the Fund value.

7) The December 2022 meeting of the WPP JGC approved the Preferred Bidder following the conclusion of the procurement to appoint a Private Equity Allocator. Following the conclusion of the 10 day standstill period a subsequent WPP press release confirmed Schroders as the successful bidder. Work is underway to complete the legal requirements and it is hoped that the WPP Private Equity sub-fund can be launched in March 2023.

8) Russell have now identified the multi-manager line up for the WPP Sustainable Active Equity Sub-fund, with the Fund including five specialist sustainable equity managers, which provides the Wales LGPS Funds with a diversified exposure to this asset class. A target of the end of April 2023 has been set for the launch of this sub-fund.

9) Following its successful application last year the WPP has submitted its 2022 Stewardship Code application to the Financial Reporting Council (FRC) but to date there is no news on the outcome of this application.

10) The WPP continues its dialogue with Link over the implications of the potential sale of Link Fund Solutions. This issue is not resolved but as a reminder the risk to the Fund is not considered significant as the Fund investment are held with the Custodian and not Link. The risk to the Fund, and wider WPP, would be from the administrative resources required to undertake the procurement of a new operator and that this may be undertaken in a market that is not fully competitive.

11) Robeco, the WPP Voting and Engagement Advisor, are regular presenters at the WPP JGC but always in the closed session of these JGC meeting. Robeco have produced summary reports of their voting and engagement activity for Q4 2022, the contents of which may be of interest to Pension Committee Members. These reports are attached as Appendix 1 (Voting report) and Appendix 2 (Engagement / Active Ownership report).

12) The provisional valuation of the Fund as at 30 November 2022 is £2,608 million which compares with £2.707 million as at November 2021. The table below presents the position for the Fund's Asset classes for these two dates and the percentage change over the year. It is important however to reinforce that the Funds investment performance remains focussed on long-term market returns.

ASSET CLASS	Nov-21	Nov-22	% change
	£million	£million	%
Equities			
UK	237.7	232.3	-2.3%
Global	1,365.3	1,331.3	-2.5%
Emerging Market	120.9	110.4	-8.6%
Total Equities	1,723.8	1,674.1	-2.9%
Fixed Income	639.4	559.4	-12.5%
Private Equity	97.9	107.4	9.7%
Property	185.6	188.2	1.4%
Cash	60.1	78.9	31.4%
Total	**2,706.8**	**2,608.0**	**-3.7%**

13) The WPP continues its dialogue with Link over the implications of the potential sale of Link Fund Solutions. This issue is not resolved but as a reminder the risk to the Fund is not considered significant as the Fund investment are held with the Custodian and not Link. The risk to the Fund, and wider WPP, would be from the administrative resources required to undertake the procurement of a new operator and that this may be undertaken in a market that is not fully competitive

14) The Fund's annual Employer's Forum was held on 12 December 2022 which included a presentation from Aon on the Actuarial valuation as at 31 March 2022. The highlights from the presentation include :-

   i. Small increase in Funding level to 97%, compared to 96% for the 2019 valuation but additional prudence included in the 2022 valuation.
      i. Probability of Funding Success increased to 78%, 75% in 2019.
      ii. Short term inflation allowance of 10% included.
      iii. Reduction in the Recovery period to 14 years.
   ii. For Employers in surplus a buffer of at least 110% retained given the uncertain economic outlook.
   iii. Some allowance for post-valuation experience of increased Gilt Yields included in the Ongoing Orphan Employer calculations.

iv. The key macro-economic assumptions impact is largely unchanged with a higher Discount Rate (Investment Returns) offset by higher CPI and Pay Growth assumptions.

Immediately prior to the Forum, individual Employer specific contribution rate results to cover the financial years 2023/24 to 2025/26 were released. Aon will finalise their 31 March 2022 valuation report during February and issue it by the statutory deadline of 31 March 2023.

Legal Implications

15) This report has been prepared to update the Committee on recent developments related to the WPP Investment Pool and the current valuation of the fund. As such the report does not raise any direct legal implications however the general legal advice set out below should be considered

General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term

- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

16) The costs of the WPP are apportioned between the constituent authorities in accordance with the Inter Authority Agreement. All costs allocated to Cardiff will be charged to the Pension Fund

Recommendations

17) That the Committee notes the recent developments related to the WPP Investment Pool and the current Fund March 2022 tri-annual Valuation

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendices
Appendix 1 Robeco Proxy Voting Report Q4 2022
Appendix 1 Robeco Active Ownership Report Q4 2022

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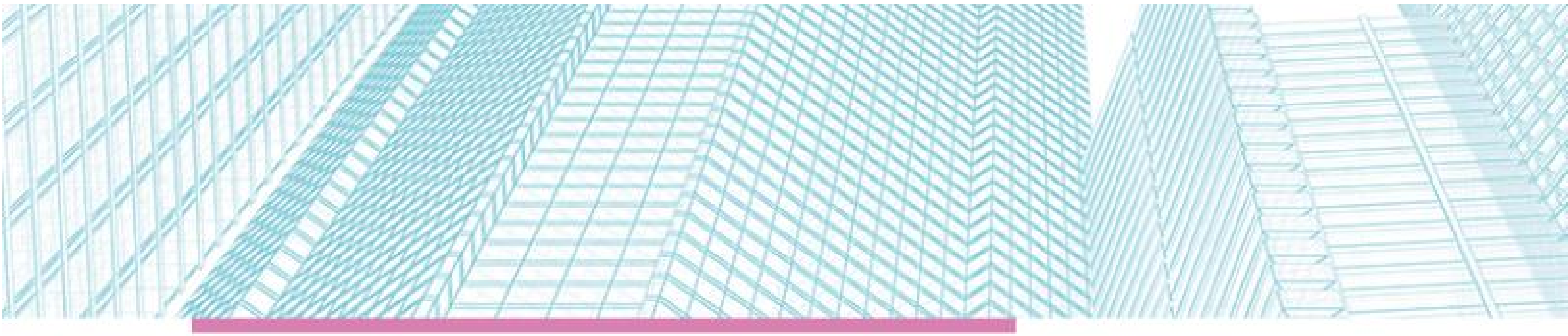
LGPS Wales Pension Partnership

ROBECO
The Investment Engineers



Proxy Voting Report

Period: October 01, 2022 - December 31, 2022

Votes Cast	**1436**	**Number of meetings**	**162**
For	1251	With management	1228
Withhold	52	Against management	208
Abstain	3		
Against	129		
Other	1		
Total	**1436**	**Total**	**1436**

In 62 (38%) out of 162 meetings we have cast one or more votes against management recommendation.

General Highlights

Anti-ESG shareholder proposals
Investors and issuers were faced with a transformed US AGM landscape in 2022. The growing national debate around sustainable investing prompted a dramatic increase in the number of shareholder proposals filed by conservative activists seeking to halt companies' ESG efforts and to combat "woke capitalism". These proposals, now widely referred to as "anti-ESG", entail new challenges for investors seeking to push US companies to step up their ESG efforts.

On the one hand, there are concerns that anti-ESG proponents may seek to take advantage of certain features of the US proxy machinery to block pro-ESG shareholder proposals from reaching ballots. The tactics that may be employed to achieve this are diverse, yet have a common denominator – they concern shareholder proposal excludability under US rules. A shareholder proposal becomes eligible for a vote if it reaches a company's proxy statement, but companies can exclude the proposal if it fails to meet certain procedural and substantive requirements.

Particularly relevant in this sense is that the US Securities and Exchange Commission (SEC) allows companies to leave out substantially duplicative shareholder proposals from its proxy statement, as well as to exclude a shareholder proposal which addresses the same subject matter as a proposal that received low levels of support in any previous meeting. The 2022 proxy season has shown that anti-ESG shareholder proposals often take advantage of these provisions by duplicating the wording of pro-ESG shareholder proposals, which can lead to a number of consequences. First, if the anti-ESG shareholder proposal is submitted first, it will be the one that makes it to the ballot. Second, if an anti-ESG shareholder proposal receives less than 5% support at a meeting, as often is the case, pro-ESG proposals covering the same topic can be excluded from the proxy materials for the next three years.

In addition, anti-ESG shareholder proposals are often verbatim copies of pro-ESG shareholder proposals; they tackle the same topics ranging from lobbying to racial equity, and often appear to be fueled by a desire to advance rather than hinder a company's ESG goals. Discerning the true objective of the proposal in many cases requires an in-depth analysis that spans well beyond the proxy materials made available by companies. This analysis covers aspects such as the proponent, the views expressed by the proponent, and any public statements made by the proponent regarding the shareholder proposal in question, thereby placing a burden on proxy analyses. Robeco assesses each shareholder proposal on a case-by-case basis and supports resolutions which aim to increase transparency on material ESG issues, enhance long-term shareholder value creation, address material ESG risks and enforce appropriate conduct.

Market Highlights

Corporate Governance in Australia

In recent years, climate activism has become increasingly prominent in Australia, with shareholder associations such as the Australasian Centre for Corporate Responsibility (ACCR) and Market Forces strongly advocating for sustainability goals through engagement and the submission of shareholder proposals. This is in line with the wider global trend of growing scrutiny of companies over sustainability concerns by investors and regulators alike. For the Australian market however, Rio Tinto's detonation of the Juukan Gorge cave in 2020 pushed sustainability concerns further into the forefront of the corporate agenda, and throughout the 2022 proxy season we continued to observe its effects on shareholder activism.

ACCR is a shareholder advocacy organization which focuses on the management of ESG-related issues. Throughout 2022, the organization filed a total of 13 shareholder proposals, of which eight were related to climate concerns. Climate proposals included requests for a climate sensitivity analysis at BHP Billiton's and Origin Energy's annual general meetings, and requests to stop advocating for the development of new and expanded coal mines at Rio Tinto, Woodside Energy and Santos.

In addition, Market Forces has actively targeted Australian banks connected with fossil fuel financing. The shareholder activist group submitted proposals to the upcoming AGMs of National Australia Bank, ANZ Bank and Westpac, requesting that the banks report on how they plan to stop financing fossil fuel projects. Earlier in Q4, Market Forces also submitted a similar proposal at Commonwealth Bank’s October AGM, which received less than 10% support.

Despite their continued efforts in pushing for corporate climate action, shareholder activists such as ACCR and Market Forces have struggled to gather significant support and pass climate proposals at AGMs. The Australian regulatory environment presents a significant obstacle for passing shareholder resolutions related to climate, as shareholders are not allowed to propose an advisory resolution unless it is permitted under the company's constitution. Consequently, it is often the case that ACCR's and Market Force's climate proposals are not put up for vote at AGMs.

This issue gained significant attention in the past, as part of the 2015 court case of Australasian Centre for Corporate Responsibility versus Commonwealth Bank of Australia. The case came to light due to the omission by the Commonwealth Bank of two ordinary proposals filed by ACCR. In the end, Commonwealth Bank won the case, which harmed the prospect of activism through advisory shareholder resolutions. However, shareholders will often submit a resolution to amend the constitution along with the advisory resolution they would like to pass. Robeco is supportive of proposals that facilitate the submission of shareholder resolutions, as we deem these to be an important means of engagement between companies and shareholders.

Voting Highlights

BHP Group Limited - 11/10/2022 - Australia
Proposal: Shareholder Proposal regarding Lobbying Activity Alignment with the Paris Agreement and Shareholder Proposal regarding Audited Climate Sensitivity Analysis

BHP Group Limited operates as a resources company in Australia, Europe, China, Japan, India, South Korea, the rest of Asia, North America, South America, and internationally. It operates through Petroleum, Copper, Iron Ore, and Coal segments.

Besides the routine agenda items, the 2022 Annual General Meeting (AGM) of BHP Group included two noteworthy environmental shareholder proposals filed by the Australian Centre for Corporate Responsibility (ACCR). The proponent of both proposals clearly intended for BHP Group to become a climate leader in terms of climate policy advocacy and climate accounting. However, both proposals triggered quite a debate about the level of commitment, and responsibility companies have toward society and investors when it comes to enabling an environmentally sustainable future.

With the shareholder proposal regarding lobbying activity alignment with the Paris Agreement, the ACCR requested the company and its shareholders to proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5 degrees. After careful consideration, Robeco decided not to support this proposal. While it sounded supportable in spirit, we ultimately believed the resolution to be too broad and ambiguous. Although we believe companies should provide shareholders with adequate disclosure to allow them to understand the nature of their advocacy and lobbying activities, the Supervisory Board and Management should retain the flexibility to assess each policy idea of the Australian government on its merits.

The other resolution filed by the ACCR requested the company and shareholders to include a climate sensitivity analysis in the company's audited financial statements starting from the 2023 financial year. After analyzing BHP Group's efforts and those of other major resource companies, we decided to support this shareholder proposal. Firstly, while BHP's disclosures are generally good, we believe the quantitative substantiation of scenario analysis can be further improved by third-party verification. Moreover, while we acknowledge auditors have limited ability in auditing the materiality of future-oriented sensitivity analysis, some companies already go beyond the disclosures in financial statements as BHP has them. We, therefore, believe BHP could further improve by reporting the assumed commodity prices and assessing the impact of assets under different climate scenarios. Finally, several accounting bodies like the IASB, FASB, and IAASB have stated that material climate change issues should be considered in the preparation and audit of financial statements.

In the end, neither of the proposals were adopted, where the shareholder resolutions on positive advocacy and climate accounting received 12.73% and 18.67% support respectively.

Oracle Corp. - 11/16/2022 - United States
Proposals: Advisory Vote on Executive Compensation and Director Elections.

Oracle offers products and services that address enterprise information technology environments worldwide.

Oracle's 2022 AGM occurred amidst continued scrutiny over the company's compensation practices. The company's Say on Pay proposal was voted down for several years in a row prior to 2017 and subsequently faced dissent levels of around 40%.

This year, we once again voted Against the Say on Pay proposal after concluding that there are significant concerns regarding the company's compensation program based on three main factors: the modification of the 2018 performance-based stock options (PSOs), pay and performance misalignment and the lack of a meaningful response to shareholder dissent.

In fiscal 2018, Oracle granted Chairman, CTO, founder, and near-controlling shareholder Lawrence Ellison as well as the CEO performance-based stock options (PSOs) to be earned upon the attainment of stock price, market capitalization, and operational performance goals. As none of the goals were achieved in fiscal 2020, 2019 or 2018, the company disclosed in its 2021 Proxy Statement that it had decided to extend the PSO performance period by three years after "taking into consideration stockholders' feedback." The modified fair value of the awards was disclosed in the 2022 Proxy Statement and stood at over USD 138 million for both executives. We consider that the company failed to provide a compelling rationale for modifying the PSO performance period, thereby casting a shadow on the predictability of the remuneration committee's decisions. In addition, we view the modified fair value of the awards as being excessive. We have significant concerns regarding the lack of a clawback policy for LTI awards and the absence of performance-based LTI awards for certain executives. Finally, we believe Oracle failed to respond adequately to the sustained high levels of shareholder dissent against the Say on Pay proposal.

In light of the above, we escalated our concerns by voting Against the re-election of all remuneration committee members at the 2022 AGM. The meeting saw between 27% and 30% of the votes cast Against their re-election, with the Say-on-Pay proposal again facing high dissent (ca. 33%).

Campbell Soup Co. - 11/30/2022 - United States
Proposal: Shareholder Proposals Regarding Supply Chain Analysis and Managing Climate Risk in Employee Retirement Options

Campbell Soup Company, together with its subsidiaries, manufactures and markets food and beverage products in the United States and internationally. The company operates through Meals & Beverages and Snacks segments.

In the company's 2022 Annual General Meeting (AGM), among the usual agenda items focusing on executive remuneration and board elections, there were two shareholder resolutions aiming at supply chain violations and managing climate risk in employee retirement options.

The company uses a risk-based approach to monitor compliance with its Responsible Sourcing Supplier Code, requiring third-party audits of high-risk suppliers and a corrective action plan for those suppliers who violate the code. The first-mentioned shareholder resolution requested the company to analyze the practices in its supply chain for any potential violations of its Responsible Sourcing Supplier Code, and disclose them within six months. Also, the shareholders requested the company to explain how each practice violates its requirements and how prevalent each practice is in its supply chain. We decided to support the proposal since additional disclosure would allow shareholders to understand better how the company brings alignment among its commitments/policies and practices and addresses material ESG risks.

The second shareholder resolution up for vote requested the company to report on how its 401(k) retirement funds manage systemic risks created by investing in companies contributing to climate change. Though we agree with the spirit of the proposal, the company's retirement plan options fall outside the shareholders' remit; thus, we decided not to support this proposal. We believe that it should be up to employees' discretion regarding where their investments are directed, and shareholders of the company should not try to influence how these employees invest their retirement savings.

Cisco Systems, Inc. - 12/08/2022 - United States
Proposal: Shareholder Proposals Regarding Report on Tax Transparency and feedback on Executive Compensation

Cisco Systems, Inc. designs, manufactures and sells Internet Protocol-based networking and other products related to the communications and information technology industry in the Americas, Europe, the Middle East, Africa, the Asia Pacific, Japan, and China.

Prior to this year's Annual General Meeting (AGM), we had the opportunity to have a conference call with the company's representatives and members of the Investor Relations (IR) team. During the call, we discussed the company's latest proxy statement and the tax transparency shareholder resolution. Additionally, we provided feedback on structural improvements for the executive compensation scheme, like extending the performance period under the Long-term Incentive plan and disclosing more granularly how the ESG KPIs are linked to the overall strategy.

Cisco was among the three big US tech companies (Amazon and Microsoft) where we saw a tax transparency resolution being up to vote. The shareholder proposal requested the company to publish a tax transparency report in line with the Global Reporting Initiative's (GRI) Tax Standard. The tax transparency resolution fillings were coordinated by Pirc, Europe’s largest independent corporate governance and shareholder advisory consultancy, and have been part of a larger campaign targeting 30 companies in sectors with a reputation for tax avoidance or with governments as customers.

On our call, the company's representatives recommended voting against the resolution because it would potentially harm their business regarding specific manufacturing plants in parts of the world where they want to keep details private on a country-by-country basis. Although the company provides some level of disclosure, we decided to support the proposal since regulatory trends and controversies regarding the company's taxes justify additional disclosure. The company still needs to disclose the voting outcome of the AGM.

Microsoft Corporation - 12/13/2022 - United States
Proposals: Shareholder Proposal Regarding Managing Climate Risk in Employee Retirement Options, Shareholder Proposal Regarding Report on Government Use of Technology, Shareholder Proposal Regarding Risks of Developing Military Weapons, and Shareholder Proposal Regarding Report on Tax Transparency.

Microsoft Corporation develops, licenses, and supports software, services, devices, and solutions worldwide. The company operates in three segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing.

The company’s 2022 AGM agenda included several proposals routinely encountered on US firm ballots and six management-opposed shareholder proposals. Below, we highlight four resolutions deemed to be of particular importance.

One of the shareholder proposals up for a vote requested that the board provide a report on how its 401(k) retirement funds manage the growing systemic risk to the economy created by investing retirement plan funds in companies contributing significantly to climate change. While we deem the spirit of the proposal supportive, we consider that the company's retirement plan options fall outside the shareholders' remit. The resolution garnered low support (ca. 11%).

Two shareholder proposals on the meeting agenda addressed the same topic: the risks associated with certain Microsoft products and technologies. One proposal requested a report assessing "whether governmental customer use of Microsoft's technology, including defense contract use, does or can contribute to violations of privacy, civil and human rights, and conflicts with the policies and principles set forth in Microsoft's CSR Report and other public disclosures." The other resolution requested a report assessing "the reputational and financial risks to the company for being identified as a company involved in the development of weapons used by the military for training and/or combat purposes." We supported both resolutions as we consider that additional disclosure on this material topic would benefit shareholders. The first resolution was approved by ca. 20% of the votes cast, while the second received lower support (11%).

Finally, we highlight the shareholder proposal requesting that the board issue a tax transparency prepared in line with the Global Reporting Initiative's Tax Standard. We supported the resolution as we consider that the requested disclosure is essential for investors to adequately assess the company's risk profile. In light of recent regulatory developments - most notably, the EU "Public" country-by-country directive - we consider that it is in the company's best interest to prepare for the more stringent disclosure requirements and heightened expectations from regulators and investors. Around 23% of the votes were cast in favor of the proposal.

Disclaimer

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ROBECO
The Investment Engineers

ACTIVE OWNERSHIP REPORT

Q4 2022

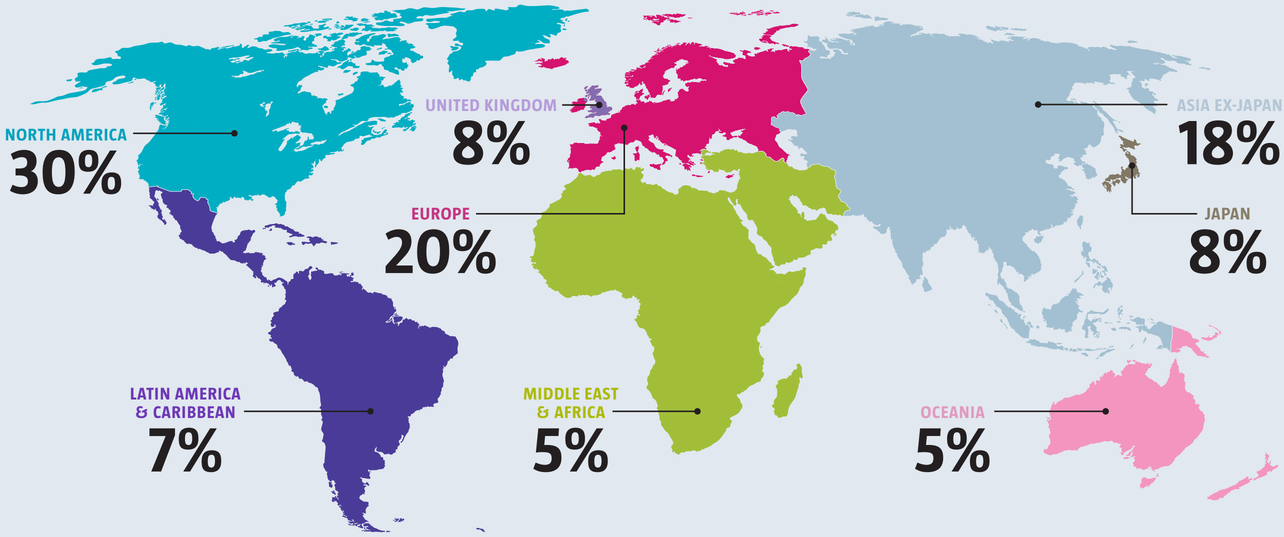
ROBECO | 01.10.2022 - 31.12.2022

Partneriaeth Pensiwn Cymru Wales Pension Partnership

Sustainable Investing Expertise by ROBECOSAM

Q4|22 FIGURES ENGAGEMENT

Engagement activities by region



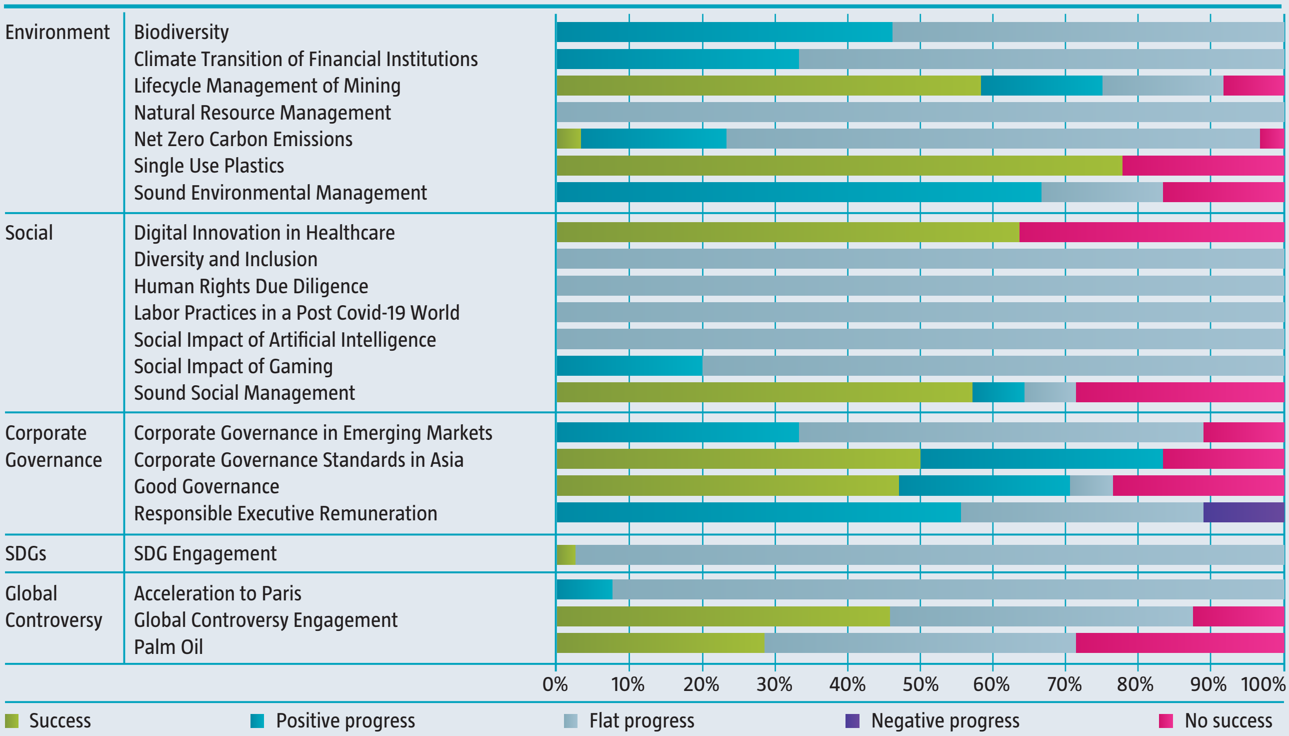
Number of engagement cases by topic*

	Q1	Q2	Q3	Q4
Environment	47	55	36	60
Social	20	26	21	21
Corporate Governance	19	20	12	21
SDGs	15	30	18	29
Global Controversy	25	19	13	20
Total	126	150	100	151

Number of engagement activities per contact type

	Q1	Q2	Q3	Q4	YTD
Meeting	1	1	4	16	22
Conference call	78	90	56	90	314
Written correspondence	88	125	76	114	403
Shareholder resolution	0	1	0	3	4
Analysis	16	27	19	46	108
Other	1	9	1	2	13
Total	184	253	156	271	864

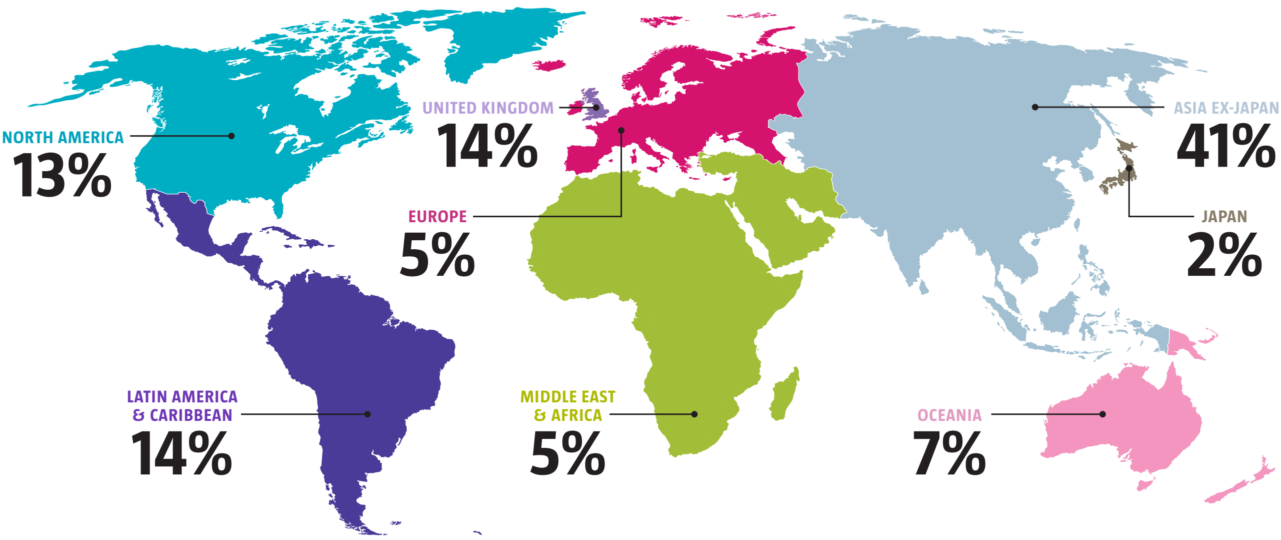
Progress per theme



* Due to a change in Robeco's methodology to account for engagement cases, numbers are expected to differ from previous quarters.

Q4|22 FIGURES VOTING

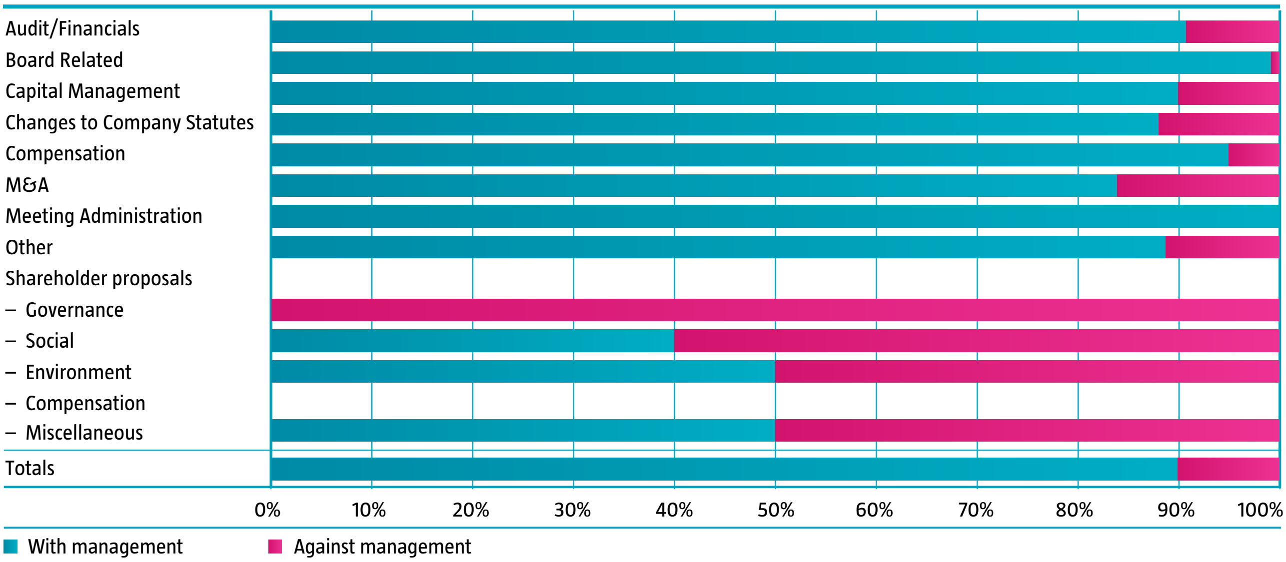
Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	101	725	160	162	1,148
Total number of agenda items voted	1,187	10,531	1,688	1,436	14,842
% Meetings with at least one vote against management	62%	76%	49%	38%	66%

Votes cast per proposal category



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INTRODUCTION

Although there were turbulent times, we look back on 2022 as being another successful year for Robeco's Active Ownership activities. We have continued to grow the team and we launched several new engagements, next to this we enhanced the transparency and collaboration with our clients.

With the year having come to an end, so did our engagement on the Social Impact of Artificial Intelligence (AI), launched in 2019. The opportunities present in AI are often described as 'endless', though technology's growing and often unregulated presence in our lives brings along numerous social risks, ranging from systematic discrimination to surveillance and privacy concerns.

For three years, we have supported technology companies in creating holistically responsible AI frameworks to govern their technological development, deployment and end use. We successfully closed 40% of the engagements, with many of the companies having formalized responsible AI principles. They have shared how the principles of inclusiveness, fairness and transparency are being integrated into their developer trainings, enterprise risk management systems and board responsibilities. However, companies remain resistant to publicly disclosing their systematic responsible AI practices, a critical challenge as AI is starting to be regulated.

Staying on the topic of technology, looking both on and behind the screen, we reflect on the progress observed so far in our Social Impact of Gaming engagement. Over the last two years, gaming companies have taken significant steps to address in-game harassment of players, ranging from AI-driven text filtering to extensive feedback loops. At the same time, game providers are seeking ways to improve their disclosures on social and environmental performance, with three out of the five companies under engagement having launched their first sustainability reports since we started our dialogues with them.

Meanwhile, stakeholders from across the world came together at the UN Convention on Biological Diversity Conference in Montreal in December to find ways to halt biodiversity loss and to address the associated environmental, social and economic harms. Eliminating biodiversity loss requires urgent multilateral action, from governments, companies and investors. In our update, we share the various ways in which Robeco addresses biodiversity loss and deforestation, through our engagement with the Brazilian and Indonesian governments that aim to strengthen no-deforestation laws, to our newly launched proxy voting policy targeting agricultural companies that are not living up to their environmental responsibilities. Finally, we report on the soft launch of the Nature Action 100 engagement collaboration, in which we take an active role. The collaboration focuses on the 100 companies deemed to be the biggest culprits in causing biodiversity loss.

Finally, we shift our focus to Asia, where we continue to engage policy makers and companies on key gaps in their corporate governance, including the low rate of female board representation and the systematic challenges around companies' annual disclosures. These corporate governance issues alongside other market and capital inefficiencies are believed to have significant impacts on companies' market valuations, highlighting the importance of investor engagement.

As we move into a new year, we reflect on the promises made by companies and governments towards safeguarding our planet, and are ready to play our part in moving towards a more sustainable future.

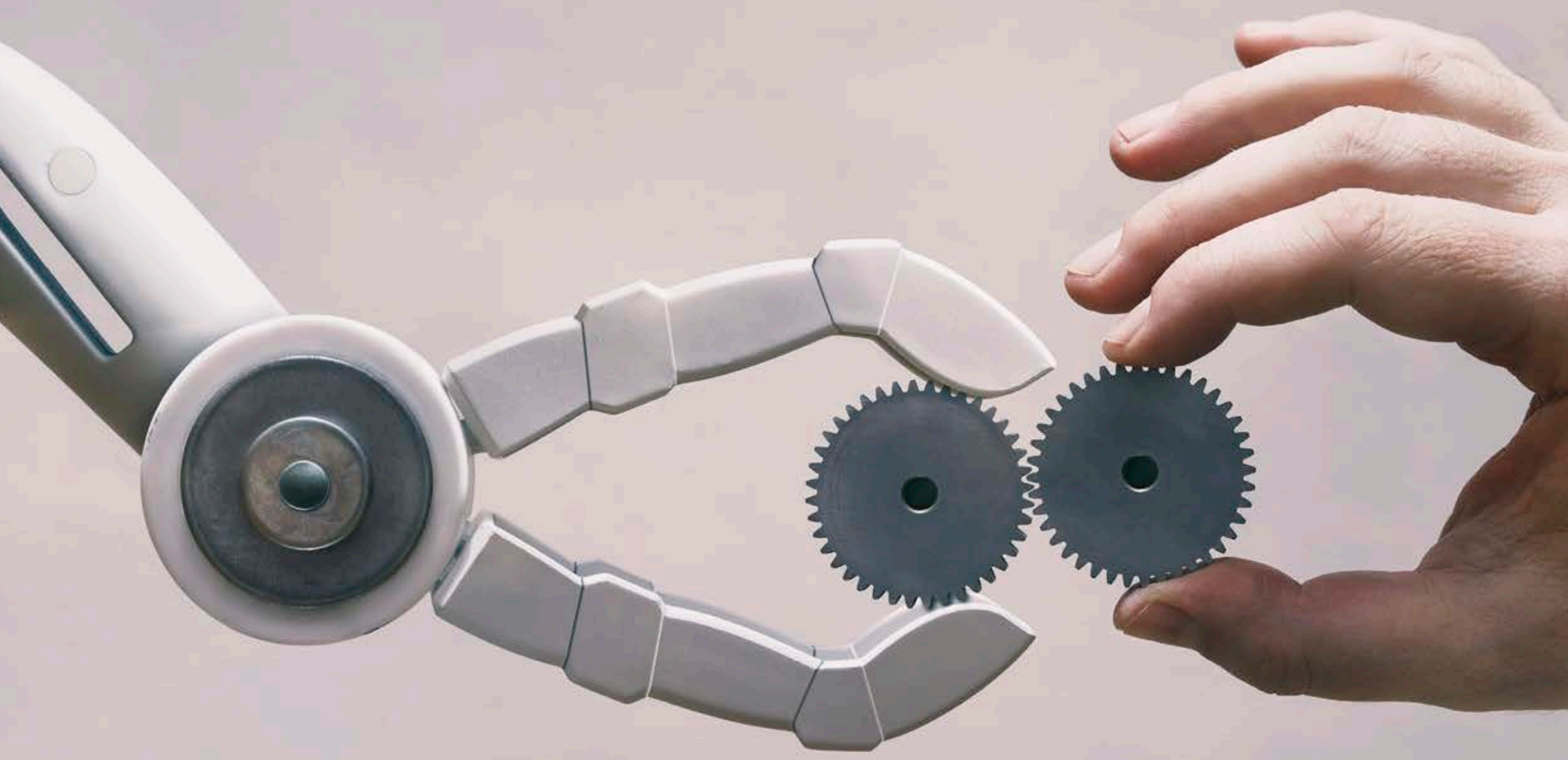
Carola van Lamoen
Head of Sustainable Investing

AI, will you judge me?

SOCIAL IMPACT OF ARTIFICIAL INTELLIGENCE

DANIËLLE ESSINK – *Engagement specialist*

The potential benefits of artificial intelligence (AI) come with risks that are not yet fully explored, let alone understood. As AI increasingly becomes a more important part of our daily lives, there is an urgent need for robust governance of AI systems. As we close our Social Impact of AI engagement theme, we reflect on some of the key trends, opportunities and challenges around this technology.



AI represents new opportunities for companies to grow and transform their businesses. According to the 2022 McKinsey Technology Trends Outlook, AI adoption across different industries continues to grow, and benefits such as cost reduction and improved efficiency remain significant. However, to achieve the full potential of AI, companies need to manage the associated risks that come with the development and use of the technology, including human rights-related risks. From 2019 to 2022, Robeco engaged with 10 companies from across the Information and Communication Technology (ICT) sector with the aim of promoting best practices in the development and responsible use of AI.

> **'ETHICAL PRINCIPLES ON THEIR OWN DO NOT ENSURE THE RESPONSIBLE DEVELOPMENT AND DEPLOYMENT OF AI.'**
>
> DANIËLLE ESSINK

Opportunities and challenges

Given the speed at which AI is being developed, there is no doubt that in the next few decades, this technology will transform our economy and society in ways we cannot imagine. According to the 2022 Worldwide Artificial Intelligence Software Forecast by the International Data Corporation (IDC), the worldwide AI market is estimated to show compound annual growth of 18.6% from 2022 to 2026 alone.

This type of growth represents massive opportunities for AI to contribute to positive changes, such as detecting patterns in environmental data, or improving the analysis of health information. Using AI to overcome some of the most difficult challenges that humans face, including climate change, is an exciting prospect. At the same time, AI could cause new problems or aggravate existing ones if companies do not have enough understanding of the risks associated with these technologies. For example, using AI algorithms for profiling can have discriminatory effects, such as credit rating algorithms disfavoring people from certain ethnic backgrounds, or those living in certain areas.

Similarly, AI can be used for surveillance – in public spaces but also in the workplace – putting the right to privacy at risk. This shows a growing need for the responsible governance of AI systems to ensure that such systems conform to ethical values, norms, and the growing number of AI regulations.

Upcoming regulation

In response to the ethical and societal challenges raised by AI, an increasing number of regulatory initiatives and policy proposals have been launched by various players, including governments and governmental bodies such as national ethics committees, inter-governmental organizations such as the EU, non-profit organizations and academics.

On April 2021, the European Commission issued the AI Act as a means of regulating the technology. This is a crucial step as it represents a sign of norm diffusion. In the proposal, clear requirements and obligations regarding the specific uses of AI are laid out for developers, deployers and users. The proposal takes a risk-based regulatory approach by distinguishing four categories based on the level of risk. For example, AI systems that have been identified as high-risk, such as CV-scanning tools that rank job applicants, will be subject to strict obligations including enhanced risk management processes and human oversight. AI systems with limited risks will remain largely unregulated.

Following the proposal in April 2021, the regulation was expected to come into effect in late 2022 or early 2023, using a transitional period. This growing legislative pressure around AI could pose serious regulatory risks for companies that are not well prepared to conform with the rising obligations.

The results of our engagement

In September 2022, we concluded our Social Impact of AI engagement program and successfully closed 40% of the engagement cases. Through our engagement, we learned that companies are gradually aligning internal practices to principles of responsible AI. Many companies formalized AI principles that address topics like inclusiveness, fairness and transparency. Additionally, companies are increasingly pursuing a collaborative approach by actively participating and contributing to cross-industry multi-stakeholder initiatives that aim to advance responsible governance and best practices in AI. These types of initiatives play a decisive role in guaranteeing trustworthy AI across the industry.

However, ethical principles on their own do not ensure the responsible development and deployment of AI. Businesses require robust governance mechanisms to effectively implement their principles. In our engagement, we observed that transparency around AI governance and implementation remained low, as most companies' public disclosures lacked clarity about how such principles translate into practice, and which checks and balances are in place. After talking to the companies, we learned about the specifics of the implementation, which then gave us the confidence to close some of the objectives successfully. The engagement results of this theme are, therefore, highly correlated with the company's willingness to set up constructive dialogues.

Next steps

The alignment of AI technologies with ethical values and principles will be critical to promote and protect human rights in society. Even though much work has been done in this area, the implementation of AI principles and management of AI risks remains a critical area for improvement. As a result, we will continue our engagement work with a selection of companies in the ICT sector under our 'Sustainable Development Goals (SDG) engagement' theme. These dialogues have a strong focus on human rights and societal impact, and highlight topics like misinformation, content moderation and stakeholder collaboration. We will focus on how companies can contribute to SDG 10 (Reduced inequalities) and SDG 16 (Peace, justice and strong institutions) by safeguarding human rights in the development and use of AI and promoting social, economic and political inclusion. ■

CASE STUDY

MICROSOFT

Microsoft is an American multinational technology company, showing strong performance in developing and implementing AI policies and guidelines. For example, the company has published six ethical principles to drive responsible AI as well as user tools, guidelines, and resources to help implement it throughout the lifecycle of technologies, from concept to deployment. One specific example is a checklist which helps prioritize fairness when developing AI. Additionally, Microsoft has added requirements on responsible use by clients in the terms of service and marketing materials of its AI products and services.

PLAYING FOR IMPACT

SOCIAL IMPACT OF GAMING

ALEXANDRA MORTIMER – *Engagement specialist*

In response to mounting concerns around the effects of ever-more popular games on the well-being of adults and children, in Q1 2021 we started engaging the global video gaming industry on their social impact. We selected six of the largest listed gaming companies located in the US, South Korea and China, with objectives that address the social impacts felt both behind and in front of the screen. Two years into the engagement, the industry has made significant steps, though not all at once.

In front of the screen

For the consumers playing video games, companies are expected to develop strategies that prevent harassment occurring between players, especially within Massively Multiplayer Online Role-Playing Games (MMORPGs), where large numbers of players interact at once. Automatic chat text filtering has emerged as a standard technology deployed by most companies under engagement. More sophisticated tiered responses have emerged among a subset of the companies, which feature artificial intelligence, feedback loops to the affected players, and appeals processes.

Overall, the application of such tools is decided by studios on a game-by-game basis, though we have encouraged companies to look for opportunities for studios to learn from each other, and create a more general application of harassment-prevention tools. Another interesting response by the industry has been to conduct research on the factors behind disruptive player behavior, though we have yet to see how this research is being leveraged in game design, which we will encourage in the coming months.

Other elements of player behavior that warrant attention are the money and time spent within games. Much of companies' focus has been on children's spending in recognition of their limited ability to regulate their behavior. A straightforward measure implemented by at least half of the companies has been to ban spending abilities for accounts below an early-teen age group, though age restrictions and time restraints are largely implemented through the consoles on which the games are played, and must be actively set by parents.
In September 2021, the Chinese government introduced limits on children's gaming time for which functions such as account verification had to be integrated. This had a significant effect on the total time and money spent by young players, as already evidenced by one company. This area of impact has the potential to generate some creative design solutions, and we remain keen to see how the breadth of tools develops over the next year.

Two other player-end impacts have seen less traction in the intervening time. Depictions of violence within games are acknowledged as material by the companies most exposed to this content. However, we have yet to see examples of clear policies that guide what imagery is appropriate outside of regulation, and it is widely seen to be a creative rather than a risk-aligned decision. Similarly, in-game diversity has begun to garner attention in US-based studios, but lacks traction in other markets. Companies have highlighted extended character appearance options that allow for diverse avatars, and characters in storylines that reflect one or more dimensions of diversity such as race, gender expression or physical ability levels. This, too, is considered a creative decision that is determined by project teams, for which the diversity levels of the teams themselves is considered a large factor. In some instances, feedback structures have been put in place for employees to flag inappropriate or concerning content, though it doesn't appear that this is a formal process that is taken advantage of across all projects.

Behind the screen

Since the launch of the engagement, the issue of diversity and inclusion on the work floor has only continued to rise in prominence within the gaming sector. Allegations of toxic workplace cultures, enabling sexual harassment and discrimination, continued into 2021, triggering legal and employee action. The response by the industry has been twofold. Western companies have appointed leads for diversity, installing training and development programs, while remaining defensive of the view that allegations are the result of systemic issues. Companies in other regions however approach diversity primarily from the gender perspective, and are less responsive to the issue overall. Wider workplace conditions have attracted more uniform attention, with companies reporting initiatives to improve work-life balance.

Where companies have developed across the board is in their reporting. All companies under engagement now publish annual ESG reports, when at the beginning of the engagement, three had yet to do so. The reports highlight initiatives that relate to many of our objectives, and largely conform to frameworks that include metrics that we deem important for transparency, in particular those that are related to the workforce. We've provided input to companies on topics we deem material to receive more transparency about, and the metrics we'd like to see in future, acknowledging that many are still exploring this new form of communication.

'CREATING RECOGNITION OF UMBRELLA COMPANIES' RESPONSIBILITIES TOWARDS SUBSIDIARIES' RISKS REQUIRES A SHIFT IN MINDSET AT THE MANAGEMENT LEVEL.'

ALEXANDRA MORTIMER

Focus areas for the last year of engagement: responsibility and regulation

Decisions around in-game elements such as character diversity are largely seen to be within the remit of the creative and project teams, as they're highly relevant to the user experience. Umbrella companies are nonetheless still responsible for managing subsidiaries' risks, including those faced by consumers when using their product. Creating recognition of this dynamic is at the center of this engagement, and requires a shift in mindset at the management level.

China's restrictions around minors' gaming time is but one example of how regulations are influencing the way that users interact with games. Markets are separately mandating how monetization and violence should be included in games, creating a fragmented landscape of acceptable game features. Prominently, 'loot boxes', which have been likened to gambling products, have come under scrutiny by regulators in the UK and US, in addition to four countries where the products are already actively regulated or banned. How companies are navigating this landscape, especially within international expansion plans, is an element we will look to explore further as we approach the end of the engagement theme. ■

CASE STUDY

ACTIVISION BLIZZARD

Activision Blizzard, an American video game holding company, faced prominent allegations of employee misconduct towards the end of 2021, generating wide media coverage and employee outrage. Since then, the company has settled an investigation with a state regulator and implemented a multi-pronged initiative of diversity personnel, targets, and strengthened employee protection policies. We have discussed this at length with the company as part of our engagement, and provided detailed feedback on how Activision can improve its reporting to progress the resolution of the issue by increasing confidence in the efficacy of its new measures. If the efforts are proven to have worked, the company's response to its scandal may serve as a positive example to peers in a sector that has faced many similar allegations in past years.

NC SOFT

South Korean video game developer and publisher NC Soft has made significant steps in improving its sustainability disclosures since the beginning of our engagement in 2020, moving from elementary ESG disclosure to publishing an inaugural ESG report in 2021. The company's new ESG reports have particularly highlighted NC Soft's approach to diversity, both within the company and in-game. Though not regarded as highly material in its domestic base compared to Western markets, NC Soft has shared how its employee code of ethics accounts for diversity and inclusion. It has also published human capital metrics describing how gender is represented across different levels of the company. NC Soft has also outlined the process in place to intercept content that may be inappropriate in different markets, both in imagery and in text.

A MULTI-FACETED APPROACH

BIODIVERSITY

CLAIRE AHLBORN – *Engagement specialist*

Nature is critical to meeting the UN Sustainable Development Goals (SDGs) and limiting global warming to 1.5 degrees. Countries, companies and civil society organizations must work together to eliminate and reverse biodiversity loss and secure our and our planet's health and well-being. In an active effort to live up to our and our clients' environmental and social responsibilities, Robeco has set up an integrated and multi-layered engagement approach to address biodiversity loss.

In prioritizing economic development, humanity has caused considerable damage to the natural world and its ecosystems. Yet, a degraded biosphere will have a direct impact on growth and human welfare over the next several decades. From 1970 to 2018 there has been a reported 69% average decline in global wildlife species. In Latin America, this number rises to a staggering 94%.

Moreover, studies conducted in the Netherlands, Brazil and France found financial institutions to have hundreds of billions of assets highly dependent on the services provided by healthy ecosystems, from pollination to clean water provision. Such estimates help frame the gravity of biodiversity loss trends and underline the collective urgency to halt and reverse them.

A multi-layered engagement strategy

Addressing biodiversity loss requires urgent action from both governments and companies. With their wide coverage, investors are often in a unique position to push for change. Yet, investor action on biodiversity has been limited, with data barriers and capacity limitations keeping them from integrating biodiversity into their investments, engagement and voting decisions at scale.

As the financial materiality of biodiversity and the impact that companies and financial institutions have on nature is becoming clearer, Robeco has set out to create a holistic, multi-layered and scalable engagement approach towards biodiversity. As such, we are not only engaging the various relevant stakeholders, from governments and companies to data providers, but also exploring how stewardship efforts can be scaled through proxy voting and collaborative engagements.

‘ADDRESSING BIODIVERSITY LOSS REQUIRES URGENT ACTION FROM BOTH GOVERNMENTS AND COMPANIES. WITH THEIR WIDE COVERAGE, INVESTORS ARE OFTEN IN A UNIQUE POSITION TO PUSH FOR CHANGE’

CLAIRE AHLBORN

Engagement: From impact assessments to incentive structures

Biodiversity loss is one of the defining challenges of the 21st century. Robeco’s engagement initially started off with a focus on addressing biodiversity loss linked to deforestation among companies exposed to high-risk commodities. We have since extended the engagement program in both time and scope to accommodate engagements on other drivers of biodiversity loss, from pollution to overfishing.

Through the engagements, we expect companies to assess their biodiversity impacts and dependencies and set a biodiversity strategy that includes, for instance, no-deforestation targets. We also expect them to report key impact indicators following recognized reporting frameworks such as the Taskforce for Nature-Related Financial Disclosures.

To achieve environmental goals, biodiversity must be embedded within companies’ governance and incentive structures. Companies must actively engage their stakeholders, assuring adequate efforts are made to not exclude smallholder farmers and local communities from their supply chains.

The theme will among others cover companies engaged as part of our new RobecoSAM Biodiversity Equities Fund, which directs financial flows towards biodiversity solutions providers. We aim to engage with those companies where we see opportunities to enhance their contributions to biodiversity, including wider asks such as the systematic integration of biodiversity into companies’ strategies and risk management processes, or topic-specific discussions on, for instance, sustainable livestock manure management.

Voting for nature

To scale up our efforts, Robeco has introduced a new voting approach around deforestation, targeting companies that have high exposure to deforestation risk, but do not have adequate policies and processes in place to reduce their impact, or are involved in severe and repeated deforestation-linked controversies. Drawing on the insights from benchmarks such as Global Canopy’s Forest500 ranking, we start by focusing on companies involved in the key forest risk sectors: palm oil, soy, beef and leather, timber, pulp and paper.

Speaking up together

Seeking a wider reach, we are increasingly looking for collaborative engagement opportunities. We recently signed the Business for Nature statement calling for mandatory corporate reporting for nature by 2030. We also joined the letter campaign and ESG data provider engagement by the Finance Sector Deforestation Action, a group of over 30 investors calling for increased action and transparency on protecting our forests.

Furthermore, Robeco was honored to be part of the core investor group that launched the Nature Action 100 initiative during the UN Biodiversity Conference in Montreal in December. This aims to harness the power of collaborative engagement to address nature loss and biodiversity decline, focusing on the 100 companies with the largest impacts and dependencies on nature.

The initiative will be co-led by the sustainability advocacy group Ceres, the Institutional Investors Group on Climate Change (IIGCC), the Finance for Biodiversity Foundation and the financial think tank Planet Tracker. There will be three main work streams:

- the Secretariat, responsible for setting up the initiative's Steering Group and supporting administrative, communications and fundraising activities;
- the Technical Advisory Group, tasked with identifying priority engagements and developing science-based investor guidance and tools; and
- the Corporate Engagement group, focusing on developing a multi-year plan to engage companies deemed most important to stemming nature and biodiversity loss.

Global investors are invited to sign up to the program and lead on individual dialogues on behalf of the global investor community.

Public policy dialogue

Shifting to the sovereign level, Robeco continues to be actively involved in the Investor Policy Dialogue on Deforestation (IPDD) initiative since it was formally set up in July 2020, co-chairing the work streams responsible for engaging with the governments of Brazil and Indonesia. Currently, the coalition is comprised by 65 institutional investors from 19 countries, with USD 10 trillion in assets under management. As a long-term investor in these countries' bonds and equities, Robeco considers sovereign engagement as a necessary and powerful step to encourage governments that are significantly exposed to deforestation risk to implement relevant policies and contribute to a positive change.

CASE STUDY

The Finance Sector Deforestation Action

We are actively partaking in the Finance Sector Deforestation Action (FSDA) initiative, a collaborative investor group constituting of over 30 investors that have signed the COP26 Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation throughout investment and financing activities by 2025.

As part of the investor group, we have joined a letter and engagement campaign launched at the end of 2022, jointly aiming to engage more than 50 companies. These include, among others, meat producer Marfrig and forestry company Suzano, on creating clear no-deforestation and traceability targets, due diligence processes and disclosures.

In October 2022, Robeco took part in the IPDD's group trip to Jakarta and met with representatives from national government agencies to discuss various ESG topics. In particular, the IPDD group met with the Indonesia Stock Exchange (IDX) and with the Chamber of Commerce (KADIN), signing two Memorandums of Understanding to promote country sustainability disclosures for listed companies, and to support the Regenerative Forest Business Sub Hub, respectively. ■

ENGAGING TO CLOSE THE ASIA DISCOUNT

CORPORATE GOVERNANCE STANDARDS IN ASIA

RONNIE LIM – *Engagement specialist*

Our engagement to improve corporate governance standards began in 2017 with Japan and was widened in 2020 to include Asia. In addition to engaging with companies, we also work with other investors and stakeholders to create a positive environment for change. We focus on the most material governance issues to be addressed, with target companies selected in close collaboration with our fundamental equity teams.

Opportunities and challenges

We have two broad streams of engagement in Asia. Firstly, we work with regulators and policy stakeholders such as financial regulators and local stock exchanges in Japan, South Korea, and to a lesser extent in China, to ensure an improved and level playing field for ESG issues. Secondly, we work constructively with companies in Japan and South Korea to improve their disclosure, communication and financial performance. We have also worked in collaboration with other asset managers to improve the Asian corporate governance 'ecosystem', with active participation in the two working groups (Japan and South Korea) within the Asian Corporate Governance Association (ACGA) and the International Corporate Governance Association (ICGN).

Our policy engagement included a virtual delegation meeting with Japan's Ministry of Economy, Trade and Industry. One of the issues we raised was the disclosure timing of annual reports, and we noted that it is of utmost importance to investors that these be released prior to the annual general meetings. In addition, we were co-signatories of a letter to Japan's Financial Services Agency and the Tokyo Stock Exchange on two pathways to address the low rate of female participation: changes to the listing rules and via Japan's Corporate Governance Code.

We engage with domestic investors in Japan who are increasingly motivated to understand how economic value is created by efficient balance sheet management. Over the past year, we delivered a series of ICGN webinars on the topic of capital efficiency and long-term value creation which saw active participation by listed companies. The content of the webinars was how cashflow and return on capital create long-term shareholder value, and the impact of valuation by efficient management of balance sheet items, such as by lowering inventory and increasing dividend payouts.

'WE ATTRIBUTE THE PREDILECTION FOR MANAGEMENT TO PERSIST WITH EXCESS CASH OR INEFFICIENT BALANCE SHEETS TO EITHER EXCESSIVE RISK AVERSION OR THE PRESERVATION OF 'OPTION VALUE'.'

RONNIE LIM

The markets of Japan and South Korea, where the engagement is focused, have large valuation discounts compared to other developed markets in Europe and the US. These discounts have widened in the year to date with the strong relative appreciation of the US dollar. The main valuation metrics we use include price-earnings ratios (PEs), price-to-book value and EV/EBITA.

The companies under engagement were also trading at valuation discounts compared to their global industry peers, which we attribute partly to broad governance issues in Japan and South Korea, but also to the lack of robust financial strategies and inefficient balance sheets. Our dialogue was consistently explaining the importance of both effective investor communication, together with the setting of appropriate capital management targets.

Company engagements

We have written in previous reports that the essentials of good corporate governance go beyond using 'check-list' assessments of governance codes and are closely related to the two principles of transparency and accountability. Therefore, we ask companies to improve transparency by publishing narrative reporting on their corporate strategy and having a distinct financial strategy. KPMG's last survey in 2020 showed that Japan leads the world, with 579 companies issuing integrated reports. There is much to celebrate given the increased emphasis on reporting on material environmental and social (E&S) issues, including setting targets on greenhouse gas emissions reductions. We have commended companies when they have not only reported on material E&S issues, but have also set credible near-and long-term targets. However, there are still significant opportunities for companies to improve reporting of their financial strategy and to give robust explanations on specific targets that would support their business strategy.

We consider a robust financial strategy to have several components, including disclosing the thresholds for planned capital expenditure, investment and acquisitions. We constantly remind executives of the basics of corporate finance, including having positive returns on capital, and we push for increased accountability by providing practical recommendations such as publishing dividend policies and setting appropriate incentives. We also challenge companies to dispose of any crossholdings and low-return business assets, and to return excess capital in the way of dividends, share buybacks and the cancellation of any treasury shares.

The engagements usually begin with a dialogue questioning some aspects of how the board is structured, and how compensation and incentives are structured. Typically, a company will be trading at a low valuation because of investor skepticism about the sustainability of key operating metrics such as an unusually high profit margin, or a persistently low dividend pay-out ratio. Most companies defend these practices by steering the dialogue to their need to create earnings growth, or through specious arguments for the need to retain legacy business divisions which are no longer profitable.

We attribute the predilection for management to persist with excess cash or inefficient balance sheets to either excessive risk aversion or the preservation of 'option value' – for example to make a large acquisition without shareholder scrutiny or approval. These are behavioral and cultural issues that we believe are some of the main contributors to the 'Asia discount' and can be very challenging for a minority investor to address. We do not believe that there is a single, magic bullet to fix this problem, but we have found some success in making the business and investment case for our proposals and demonstrating sincerity by being constructive and patient.

CASE STUDY

Omron Corporation

We began engagement in 2016 with Japanese electronics maker Omron, which now trades at a significant premium relative to industry peers. The company's integrated reporting steadily improved and its communication with investors now includes published interviews with its CEO and CFO. In addition, Omron's revised remuneration incentives for corporate value enhancement include a 60% weighting for financial metrics. We had regular meetings with the company to discuss capital management performance on both an absolute and relative basis and we worked with Omron to improve its return on equity for each business unit. We closed our engagement as having been successful.

Proxy Voting

DIANA TRIF – *Engagement specialist*
MANUEL SOBRAL – *Active ownership analyst*

Engagement specialist Diana Trif and Active Ownership Analyst Manuel Sobral reflect on some of 2022's key trends, from the growing shareholder activism in Australia to the critical topic of Anti-ESG shareholder proposals, the actors behind them and how to spot these misleading agenda items.

Anti-ESG shareholder proposals

Investors and issuers were faced with a transformed US AGM landscape in 2022. The growing national debate around sustainable investing prompted a dramatic increase in the number of shareholder proposals filed by conservative activists seeking to halt companies' ESG efforts and to combat "woke capitalism". These proposals, now widely referred to as "anti-ESG", entail new challenges for investors seeking to push US companies to step up their ESG efforts.

On the one hand, there are concerns that anti-ESG proponents may seek to take advantage of certain features of the US proxy machinery to block pro-ESG shareholder proposals from reaching ballots. The tactics that may be employed to achieve this are diverse, yet have a common denominator – they concern shareholder proposal excludability under US rules. A shareholder proposal becomes eligible for a vote if it reaches a company's proxy statement, but companies can exclude the proposal if it fails to meet certain procedural and substantive requirements.

Particularly relevant in this sense is that the US Securities and Exchange Commission (SEC) allows companies to leave out substantially duplicative shareholder proposals from its proxy statement, as well as to exclude a shareholder proposal which addresses the same subject matter as a proposal that received low levels of support in any previous meeting. The 2022 proxy season has shown that anti-ESG shareholder proposals often take advantage of these provisions by duplicating the wording of pro-ESG shareholder proposals, which can lead to a number of consequences. First, if the anti-ESG shareholder proposal is submitted first, it will be the one that makes it to the ballot. Second, if an anti-ESG shareholder proposal receives less than 5% support at a meeting, as often is the case, pro-ESG proposals covering the same topic can be excluded from the proxy materials for the next three years.

In addition, anti-ESG shareholder proposals are often verbatim copies of pro-ESG shareholder proposals; they tackle the same topics ranging from lobbying to racial equity, and often appear to be fueled by a desire to advance rather than hinder a company's ESG goals. Discerning the true objective of the proposal in many cases requires an in-depth analysis that spans well beyond the proxy materials made available by companies. This analysis covers aspects such as the proponent, the views expressed by the proponent, and any public statements made by the proponent regarding the shareholder proposal in question, thereby placing a burden on proxy analyses. Robeco assesses each shareholder proposal on a case-by-case basis and supports resolutions which aim to increase transparency on material ESG issues, enhance long-term shareholder value creation, address material ESG risks and enforce appropriate conduct.

Corporate Governance in Australia

In recent years, climate activism has become increasingly prominent in Australia, with shareholder associations such as the Australasian Centre for Corporate Responsibility (ACCR) and Market Forces strongly advocating for sustainability goals through engagement and the submission of shareholder proposals. This is in line with the wider global trend of growing scrutiny of companies over sustainability concerns by investors and regulators alike. For the Australian market however, Rio Tinto's detonation of the Juukan Gorge cave in 2020 pushed sustainability concerns further into the forefront of the corporate agenda, and throughout the 2022 proxy season we continued to observe its effects on shareholder activism.

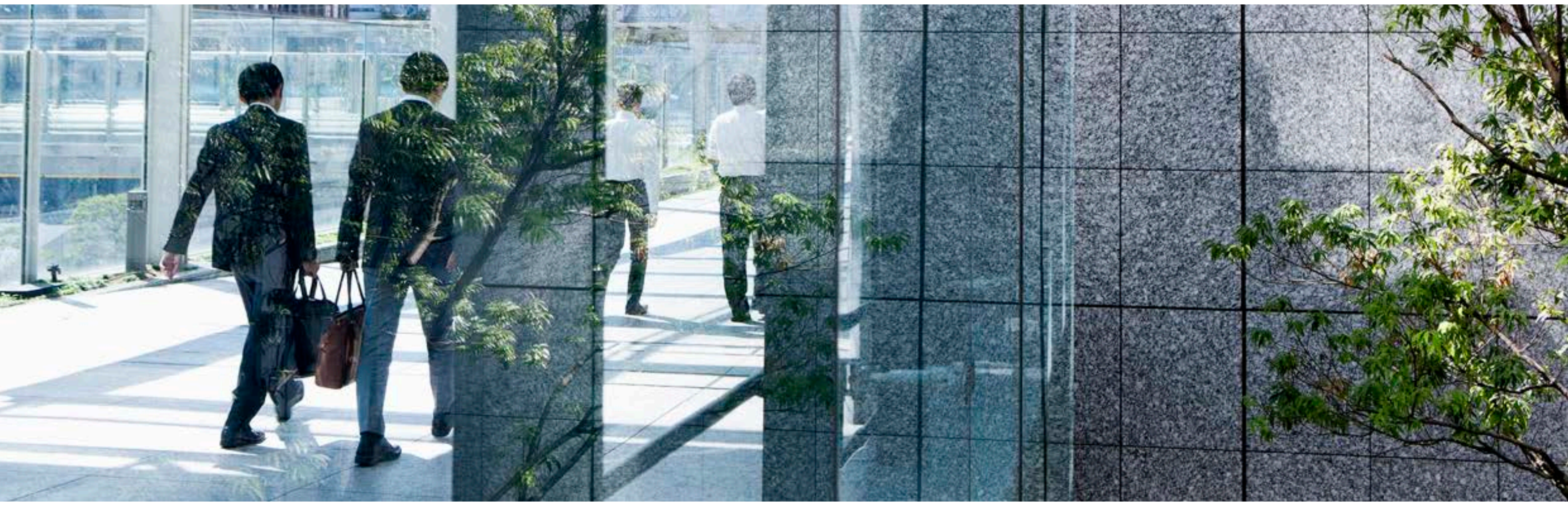
ACCR is a shareholder advocacy organization which focuses on the management of ESG-related issues. Throughout 2022, the organization filed a total of 13 shareholder proposals, of which eight were related to climate concerns. Climate proposals included requests for a climate sensitivity analysis at BHP Billiton's and Origin Energy's annual general meetings, and requests to stop advocating for the development of new and expanded coal mines at Rio Tinto, Woodside Energy and Santos.

In addition, Market Forces has actively targeted Australian banks connected with fossil fuel financing. The shareholder activist group submitted proposals to the upcoming AGMs of National Australia Bank, ANZ Bank and Westpac, requesting that the banks report on how they plan to stop financing fossil fuel projects. Earlier in Q4, Market Forces also submitted a similar proposal at Commonwealth Bank's October AGM, which received less than 10% support.

Despite their continued efforts in pushing for corporate climate action, shareholder activists such as ACCR and Market Forces have struggled to gather significant support and pass climate proposals at AGMs. The Australian regulatory environment presents a significant obstacle for passing shareholder resolutions related to climate, as shareholders are not allowed to propose an advisory resolution unless it is permitted under the company's constitution. Consequently, it is often the case that ACCR's and Market Force's climate proposals are not put up for vote at AGMs.

This issue gained significant attention in the past, as part of the 2015 court case of Australasian Centre for Corporate Responsibility versus Commonwealth Bank of Australia. The case came to light due to the omission by the Commonwealth Bank of two ordinary proposals filed by ACCR. In the end, Commonwealth Bank won the case, which harmed the prospect of activism through advisory shareholder resolutions. However, shareholders will often submit a resolution to amend the constitution along with the advisory resolution they would like to pass. Robeco is supportive of proposals that facilitate the submission of shareholder resolutions, as we deem these to be an important means of engagement between companies and shareholders.

COMPANIES UNDER ENGAGEMENT IN 2022



Environment

Biodiversity
Barry Callebaut AG
Compagnie Generale des Etablissements
Michelin SCA
JBS SA
Marfrig Foods SA
Mondelez International
Ryohin Keikaku Co Ltd
Sappi Ltd.
Suzano Papel e Celulose SA
The Hershey Corporation
Top Glove Corp. Bhd.
Unilever

Climate Transition of Financial Institutions
Bank of America Corp.
Barclays Plc
BNP Paribas SA
Citigroup, Inc.
DBS Group Holdings
HSBC
ING Groep NV
JPMorgan Chase & Co., Inc.
Sumitomo Mitsui Financial Group, Inc.

Lifecycle Management of Mining
Anglo American
AngloGold Ashanti Ltd.
Barrick Gold Corp.
BHP Billiton
First Quantum Minerals Ltd.
Fortescue Metals Group Ltd.
Gerdau SA
Polymetal International Plc
Polyus Gold OAO
Sibanye Stillwater Ltd.

Natural Resource Management
Ambev SA
Callon Petroleum Co.
CF Industries Holdings, Inc.
Continental Resources, Inc.
Diageo
OCI NV
PepsiCo, Inc.
Sappi Ltd.
Severn Trent PLC
Tronox Holdings Plc

Net Zero Carbon Emissions
Anglo American
ArcelorMittal
Berkshire Hathaway
BHP Billiton
BlueScope Steel Ltd.
BP
CEZ as
Chevron
China National Building Material Co. Ltd.
CRH Plc
Ecopetrol SA
Enel
ExxonMobil
Gazprom OAO
HeidelbergCement AG
Hyundai Motor
JFE Holdings, Inc.
LyondellBasell Industries NV
Marathon Petroleum Corp.
Petroleo Brasileiro
Phillips 66
PTT Exploration & Production
Rio Tinto
Royal Dutch Shell
Saudi Arabian Oil Co.
Valero Energy Corp.
Vistra Energy Corp.
WEC Energy Group Inc

Single Use Plastics
LyondellBasell Industries NV
PepsiCo, Inc.
Procter & Gamble Co.
Sealed Air Corp.

Sound Environmental Management
Guangdong Investment Ltd.
Origin Energy Ltd.
Saudi Arabian Oil Co.

Social

Digital Innovation in Healthcare
Abbott Laboratories
AbbVie, Inc.
CVS Caremark Corp.
Elevance Health Inc
Eli Lilly & Co.

Fresenius SE
HCA Holdings, Inc.
Philips
Roche
Sinopharm Group Co., Ltd.
UnitedHealth Group

Diversity and Inclusion

Eli Lilly & Co.
Netflix Inc
Oracle Corp
Taiwan Semiconductor Manufacturing Co. Ltd.
Thermo Fisher Scientific, Inc.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas

Bharat Electronics Ltd.
Booking Holdings, Inc.
Cemex SAB de CV
Fast Retailing
HeidelbergCement AG
Inditex
PTT Exploration & Production
Sinotruk Hong Kong Ltd.
SolarEdge Technologies, Inc.
Wacker Chemie AG

Labor Practices in a Post Covid-19 World

Accor SA
Amazon.com, Inc.
Delivery Hero AG
InterContinental Hotels Group Plc
Marriott International, Inc.
Meituan Dianping
Uber Technologies, Inc.
Wal-Mart Stores

Social Impact of Artificial Intelligence

Booking Holdings, Inc.
Microsoft
Visa, Inc.

Social Impact of Gaming

Activision Blizzard, Inc.
NCsoft Corp.
NetEase.com, Inc.
Take-Two Interactive Software, Inc.
Tencent Holdings Ltd.

Sound Social Management

Aon Plc
Bayerische Motoren Werke
Glencore Plc
MTN Group
Post Holdings Inc
Procter & Gamble Co.
Tesco Plc
Thermo Fisher Scientific, Inc.

Governance

Corporate Governance in Emerging Markets

Companhia de Concessoes Rodoviarias SA
CPFL Energia SA
Haier Smart Home Co., Ltd.
Hyundai Motor
Midea Group Co. Ltd.
Samsung Electronics
Woongjin Coway Co. Ltd.
XinAo Gas Holdings Ltd.

Corporate Governance Standards in Asia

Hynix Semiconductor, Inc.
Mando Corp.
Mitsubishi Motors
OMRON Corp.
ROHM Co. Ltd.
Shin-Etsu Chemical Co. Ltd.

Good Governance

Arcadis NV
DSM
Heineken Holding
Nissan Motor
Royal Dutch Shell
Samsung Electronics
Signify NV
Sumitomo Mitsui Financial Group, Inc.
Unilever

Responsible Executive Remuneration

Booking Holdings, Inc.
Deutsche Boerse
Henkel AG & Co. KGaA
Linde Plc
NIKE
Schneider Electric SA
Tesco Plc
Walt Disney
Wolters Kluwer

SDGs

SDG Engagement

Adobe Systems, Inc.
Alphabet, Inc.
Amazon.com, Inc.
Amgen
Apple
Aptiv PLC
Banco BTG Pactual S.A.
Boston Scientific Corp.
Capital One Financial Corp.
CB Richard Ellis Group, Inc.
Charter Communications, Inc.
Companhia de Concessoes Rodoviarias SA
Deutsche Boerse
eBay
Elanco Animal Health, Inc.
Electronic Arts, Inc.
Elevance Health Inc
F5 Networks, Inc.
Jeronimo Martins
JPMorgan Chase & Co., Inc.
L Oréal
Meta Platforms Inc
Mr. Price Group Ltd.
NASDAQ OMX Group, Inc.
Neste Oil Oyj
Novartis
OTP Bank Nyrt
Rio Tinto
Salesforce.com, Inc.
SalMar ASA
Samsung Electronics
Sandvik AB
Sony
STMicroelectronics NV
Total
Union Pacific
United Parcel Service, Inc.

Volvo Group
Zoetis, Inc.

Global Controversy Engagement

Acceleration to Paris

Anhui Conch Cement Co. Ltd.
Caterpillar, Inc.
China Petroleum & Chemical
Formosa Plastics Corp.
ITOCHU Corp.
Lukoil Holdings OAO
Marubeni Corp.
Mitsubishi
Nippon Steel & Sumitomo Metal Corp.
PetroChina
POSCO
Rosneft NK OAO
Sumitomo Corp.

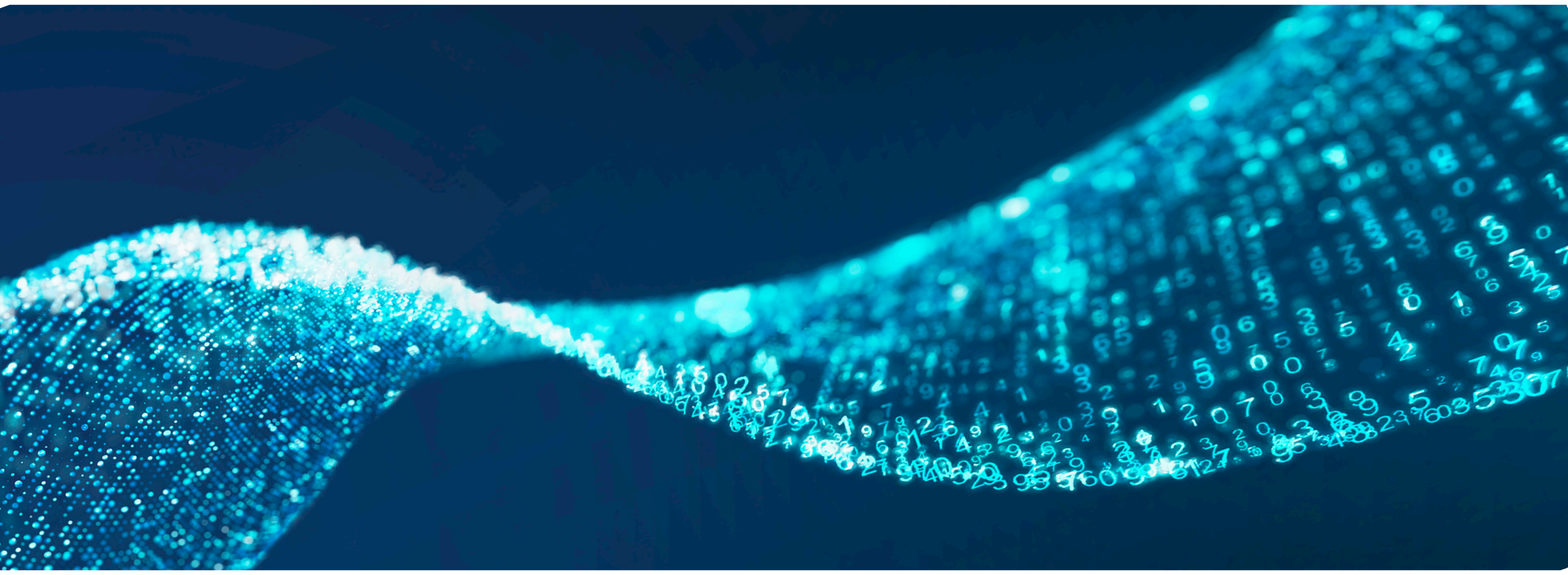
Palm Oil

MP Evans Group PLC
REA Holdings PLC
Wilmar International

Global Controversy Engagement

Currently, 10 companies are under engagement based on potential breaches of the UN Global Compact and/or the OECD Guidelines for Multinational Enterprises.

CODES OF CONDUCTS



Robeco's Engagement Policy

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out three different types of corporate engagement with the companies in which we invest; value engagement, Sustainable Development Engagement and enhanced engagement. In all three types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information is available at: https://www.robeco.com/en-int/sustainable-investing/influence.

The UN Global Compact

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at: https://www.unglobalcompact.org/

CODES OF CONDUCTS

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at: http://mneguidelines.oecd.org/

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on
- Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices. In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO_2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The Active Ownership team is part of Robeco's Sustainable Investing Center of Expertise headed by Carola van Lamoen. The SI Center of Expertise combines our knowledge and experience on sustainability within the investment domain and drives SI leadership by delivering SI expertise and insights to our clients, our investment teams, the company and the broader market. Furthermore, the Active Ownership team gains input from investment professionals based in local offices of the Robeco around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities.

ROBECO

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

More information can be found at:
https://www.robeco.com

IMPORTANT INFORMATION

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CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 6 FEBRUARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 10

COMMITTEE MEMBER TRAINING

Reason for this Report

1. This report has been prepared to give an overview of potential in-house training sessions that could be provided to the Committee, and other relevant parties, during 2023 and future years.

Background

2. Elected members and officers with responsibilities for the administration of LGPS funds are required to maintain the skills and knowledge necessary for effective decision making.

3. The Committee has requested that formal meetings of the Committee are supplemented where appropriate by informal training sessions on relevant topics.

Issues

4. Training for Pension Committee Members can be provided from a number of sources in addition to the provision of in-house training. These could include external courses and conferences provided by organisations such as CIPFA, LGA, PLSA, etc which could be either face to face events or virtual.

5. The Wales Pension Partnership (WPP) also provides quarterly virtual training events which are usually open for Pension Committee Members. Given the role of the WPP these events will be Investment focused with the Training Plan is published on the WPP website (wpp-training-plan-2022-23.pdf (walespensionpartnership.org)). Q1 2023 is due to include a training event to consider the Progress of other LGPS pools and Collaboration Opportunities. Topics to be covered during 2023/24 will be confirmed at the March 2023 meeting of the JGC and invitations to the specific events will be forwarded when details are confirmed.

6. In-house training is the third tier of training provision and to maximise the effectiveness of the training programme it is important that in-house training compliments and does not duplicate the other sources of training provision. Topics that have been the subject of in-house training previously include:-

   a. An Introduction to Pensions including :-
      i. the LGPS
      ii. Introduction to the Cardiff and Vale of Glamorgan Pension Fund

iii. Fund Administration including the roles of the Local Pension Board and the Investment Advisory Panel.
iv. Asset Allocation
v. Strategic Policy Documents
vi. ESG issues
vii. The role of Fund Advisors and Consultants
viii. Wales Pension Partnership

b. Review of Asset Classes
c. The Pension Regulator
d. Alternative Asset Classes

7. Some of the topics would have been relevant for a specific time or event such as the engagement with The Pension Regulator between November 2018 and April 2019. A similar topical event for the current period would be a training session on the 2022 Actuarial Valuation. The Pension Committee has two, relatively, new members so a revisit of some of the topics previously covered may be appropriate. A suggested in-house training programme built around Pension Committee meeting during 2023/24 could include the following :-

   a. 15 May 2023 – 2022 Tri-annual Valuation.
   b. November 2023 (tbc) – Investments to include alternative asset classes
   c. February 2024 (tbc) – Administration which could to include McCloud and Pension Dashboards if regulations are updated as expected during 2023.

8. The Committee is asked to consider the proposed 2023/24 training programme, if there are additional topics it would like included with the in-house training provision then arrangements can be made in this regard. The Committee is also asked to consider the timing and format of the training. It is proposed to continue with the previous arrangement whereby training sessions were either immediately before the Pension Committee meeting at 4:30pm or immediate after the Pension Committee has finished. Whilst previously the training would have been delivered in person going forward it is proposed that the training will be delivered either in-person or via Teams depending on the format of the associated Pension Committee.

9. Legal Implications

The report refers to proposed training sessions for Committee members and as such does not raise any direct legal implications however the general legal advice set out below should be considered.

<u>General Legal Advice</u>

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

10. Any costs incurred in the provision of training to Committee members will be borne by the Fund.

Recommendations

11. That the Committee notes the proposed in-house training programme set out in paragraph 7 to this report .

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 6 FEBRUARY 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 11

CLIMATE CHANGE INITIATIVES AND NET ZERO TARGET

Reason for this Report

1. This report has been prepared for the Committee to provide an update on climate change reporting initiatives and to consider the setting of a "Net Zero" target for the Fund.

Background

2. The Council, as Administering Authority of the Fund, has a fiduciary duty to manage the assets of the Fund responsibly on behalf of its beneficiaries and other stakeholders. LGPS Funds are required to set out how Environmental, Social and Governance (ESG) considerations are taken into account in preparing their Investment Strategy Statements. They may incorporate non-financial factors into the investment process provided that doing so would not involve significant risk of financial detriment and would be supported by the majority of fund members.

3. Previous meetings of the Pension Committee have been updated on recent developments targeting a reduction in the Fund's Carbon Footprint. In particular the joint meeting of the Pension Committee and Local Pension Board held on 11 January 2022 received an update on Climate Change and Environmental, Social and Governance (ESG) initiatives. This report highlighted a number of initiatives including:

   - The significant investment, c20% of the Fund value, into the BlackRock Passive Low Carbon Equity fund.

   - Enhanced engagement with Companies and Investment Managers in particular through the appointment of Robeco as the WPP Voting and Engagement Advisor but also highlighting the engagement activity through the Fund's membership of Local Authority Pension Fund Forum (LAPFF)

   - Forthcoming Fund investments into the WPP's Sustainable Equity sub-Fund and (open ended) Infrastructure sub-fund.

4. The agenda for today's meeting includes a revised Investment Strategy Statement (ISS) where the updated document reflects the continuing development of the Fund's investment strategy to incorporate on-going concerns on ESG issues including climate change risks.

Issues

5. In response to the increasing concerns about rising greenhouse gas (GHG) emissions and the goal, outlined in the "Paris Accord" to limit global warming to 1.5°C compared to pre-industrial temperatures by 2050 a number of organisations have set "Net Zero" targets. This includes Cardiff Council, the Administering Authority, whose "One Planet Strategy" sets out the Council's plan to be a carbon neutral local authority by 2030.

6. With regard to the other seven Welsh LGPS Funds three of the Funds have currently set Net Zero targets with their target years as follows:

   - Swansea 2037 target
   - Clwyd 2045 target
   - Gwynedd 2050 target

7. Information on reporting ESG issues and in particular Carbon related scores is improving across the portfolio but data availability is not complete with variations geographically and between asset classes. For example, the December meeting of the WPP JGC received a Responsible Investment and Climate Risk Report for a number of the WPP sub-funds. Weighted Average Carbon Intensity (WACI) is a metric widely used to measure a portfolio carbon intensity by expressing tons of CO_2 emitted per $ million of revenue and the following results were reported at that meeting.

Sub-Fund	Fund WACI	Benchmark WACI	Data Availability
UK Opportunities Equity Fund	95.1	124.4	94%
MAC Fund	409.9	390.3	21%
Emerging Markets Equity Fund	262.0	263.6	91%

8. The Department for Levelling-Up, Housing and Communities (DLUHC) consultation on the application of the Taskforce for Climate-related Financial Disclosures (TCFD) to LGPS funds closed in Autumn 2022 and the outcome from that consultation has yet to be published. Based on the obligations imposed on large Corporate Pension Schemes it is apparent that the analysis and reporting of climate related information will become much more significant for this Fund. This will include conducting scenario analysis to assess the impact of climate-related risks and opportunities using at least two scenarios, one of the scenarios will be a 2 degree or lower temperature rise scenario. This scenario analysis must take place at least once every valuation cycle. The Fund Actuary, Aon, has included scenario analysis as part of the March 2022 valuation exercise which is to be completed before 31 March 2023. As the Fund is starting for a relatively low baseline in terms of climate-related data it has asked Aon for this valuation to include analysis for the following 5 Scenarios :
   - Scenario 1: Orderly transition, the Paris aligned scenario 2 degrees or lower
   - Scenario 2: Disorderly transition with delayed and limited action with insufficient consideration given to long term policies to manage global warming.
   - Scenario 3: No transition with no new climate policies being implemented
   - Scenario 4: smooth transition with rapid advancement of technology and government action to allow upside benefits of climate change to be considered.
   - Scenario 5: Abrupt transition with action delayed for 5 years with more frequent extreme weather events.

9. Setting a Net Zero target will be a resource intensive activity for the Fund, all three of the Welsh Funds listed in paragraph 6 have engaged external advisors to assist in the setting

of their net zero targets. The expectation is that additional specialist external resources will need to be engaged by the Fund to facilitate the setting of a Net Zero target as well as the future additional climate related obligations that will fall onto the Fund. For the setting of a Net Zero target activity will be required in the following areas:

- The choice of metrics that the Fund will use to measure its progress against its chosen Net Zero target.
- The aggregation of the baseline data to identify the current carbon intensity of the Fund
- The chosen target and the implication for the Fund if it attempted to achieve the target say 5 or 10 years earlier.
- The "roadmap" to reaching Net Zero and the identification of interim targets that will measures the Fund's progress on this journey.
- The "roadmap" would require periodic review with appropriate adjustments to maintain progress on the journey to the target.

10. It is suggested that the next stage of the potential Net Zero journey should be that officers undertake further research, including external support where appropriate, to identify the resource implications and potential timescales involved and report back to future Pension Committee meeting(s). It is anticipated that the specialist external resources referred to in the previous paragraph will be procured from the LGPS Procurement Framework.

Legal Implications

11. The body of the report has been prepared to update the Committee on recent developments related to climate change reporting initiatives and to consider the setting of a "Net Zero" target for the Fund.

12. The decision maker will need to be satisfied that the proposed net zero investment accords with the Fund's approved investment strategy and any relevant guidance issued. It is understood that relevant professional advice will be undertaken in relation to the appropriateness of proposed investments and the decision maker should have due regard to all material considerations prior to proceeding with any decision affecting the Fund and/or any adopting any policies that may affect the Fund.

13. To the extent that any proposed additional specialist external resources will need to be engaged involves the procurement of services then the Council must comply with its Contract Standing Orders and Procurement Rules and procurement legislation.

14. The report refers to a public consultation exercise having been undertaken on the application of the Taskforce for Climate-related Financial Disclosures (TCFD) to LGPS funds. It should be noted that any consultation responses must be conscientiously taken into account when finalising the relevant decision as a consultation exercise gives rise to the legitimate expectation that due regard will be given to the outcome of the consultation in determining the way forward.

15. In considering this matter the decision maker should have regard to the general legal advice set out below.

<u>General Legal Advice</u>

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

16. All costs arising from the management of the Pension Fund's investments are charged to the Fund.

Recommendations

17. That the Committee:

    1. Notes the Climate Change reporting initiatives that have taken place or will be in the near future.

    2. Agrees for officers to undertake further research to scope a journey to Net Zero for the Fund.

    3. Agrees that the Corporate Director Resources in accordance with the Council's Scheme of Delegations may determine all aspects of the procurement process for the appointment of appropriate specialist external advisors (including approving the evaluation criteria to be used, and authorising the award of the contracts) and all ancillary matters pertaining to the procurement and proposals above.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

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Local Pension Board (LPB) Meeting – 07 November 2022, 1pm.

Venue: Committee Room 3, County Hall

Attendees:
Michael Prior (MP) (Chair)
Peter King (PK)
Laithe Bonni (LB)
David Llewelyn (DL)
Mark Sims (MS)
Georgia Chedzey (GC)
Chris Lee (CL)
Gary Watkins (GW)
Marc Falconer (MF)
Karen O'Donoghue – Harris (KODH)
Jayne Newton (JN)

Apologies:
Hilary Williams

Declaration of Interest
None declared

Minutes from previous meeting
The minutes of the meeting held on 29 April 2022 were agreed as a correct record.

Matters Arising
None that are not covered in the rest of the meeting agenda

Administration Update
The Pension's Team had been unable to produce the details of statistics normally provided due to absences within the pensions

technical team but will resume the provision of this information as soon as possible.

There is a drop in the number of tasks completed compared to last year due to staffing issues with people leaving and new people who need training, which slows down the fully trained people.

The Team is continuing to focus on retirements, but are receiving a large number of voluntary severance requests, which need calculations.

In addition there are deadlines for transfers, so a focus on these tasks is also needed.

The Board noted that we are 1,400 tasks down on last year, which will be building a backlog. Even with one new recently recruited member of staff, it will take a few months to get up to speed. Plus, all other tasks need to be addressed.

It was noted that the number of transfers out were increasing and asked if this was due to leavers or people cashing in their pensions. It was confirmed it was a combination of both.
New transfer regulations means that we are taking much longer to process transfer requests.
There is currently a potential fraud which is being investigated with the police. This is confidential and we cannot discuss the details at the moment.

The Team is still operating a rota basis for all staff to attend the office. Managers have returned to the office, to support the admin staff on a 1 day a week rota. This has increased staff morale.

Staffing

There are currently 6 vacancies, three grade 3s and three grade 5s. In the last round of grade 3 advertising, we had four applicants, and offered all interviews. Three pulled out and one applicant was interviewed but was not successful.

For Grade 5 posts 4 applied, three applicants were offered an interview for week commencing 23 Nov, 1 has accepted and 2 no replies.

The Team want to explore alternative ways of advertising and recruiting, maybe with CVs only or use of recruitment consultants. Other funds have done this and had success.

The Board pointed out that if we are starved of resources, we need to find new ways to recruit, or suggested re-visiting job evaluation as the work has become more difficult.
The LGPS are looking at this problem nationally and trying to get the skill set recognised as a profession and not an admin role.
Board stated that the grade 3s and 5s did not seem comparable with the work and should have another re-evaluation. it was confirmed VOG have a similar position with staff in the payroll team.

The Board noted the normal route of recruitment is not working and we need to find a new innovative way of recruiting. There needs to be a meeting with the HR team to further discuss options for recruiting.
C L confirmed the recruiting process has taken place multiple times and growing our own qualified people also needs to be considered. It will remain a red risk on the register.

MP said the Board need to stop noting the recruitment problems and to start taking action and finding an alternative.

It was suggested by the Board that a Market Forces Supplement could be looked at ?. Officers confirmed we are in a difficult position, and if we increase the salary of a grade 3 and 5s are increased, then this will have potential implications for the salary of our grade 6,7 and 10.

To provide some wider labour market context Cardiff Metropolitan University confirmed that the number of people leaving has increased from 5% to 10%.

The Board suggested using LinkedIn with a Cardiff Council profile, LB will send details through as a similar approach had been used in the Vale

The Chair wanted it formally noted that as a Board from a regulated point of view they are concerned with the Pension Section's recruitment difficulties.

GMP
No further update received, this project has been delayed due to Mercer requesting more data. Mercer were having a management meeting two weeks ago and promised to update after this meeting but to date no update had been received. Officers have formally escalated this update request and requested a reply ASAP. If action not taken soon this will not be completed before April 2023 pensions increase.

McCloud
The Pensions team have finished uploading all the data we have received; we do have a number of small employers still outstanding, and we are continuing to chase these employers. We have completed phase 1 of cleansing. Phase 2 the calculation is still to be

done and we are waiting for the software to be completed to action the calculations.

Dashboard

Aon will start a kick off project for us soon. Heywood's the software suppliers are coming into the office for a face-to-face meeting to discuss this week.

Board mentioned they would like a presentation on Dashboard to explain the 8 steps needed.

MSS

When last measured, current uptake was holding at just below 40%.

Pensioners have not been given access to MSS as there would no actions for them to complete online as the payroll is currently done by Cardiff Council and not Altair.

Employer Forum

The Employer Forum has been booked for 12 December 2022 at City Hall and invitations have been sent out. The Chair stated he is not able to attend and asked if anyone else within the LPB would like to say a few words for Pension Board.. Employer forum and trade union meeting has been combined again this year.

Taxation Workshop

We are currently arranging a high earners tax workshop; Hymans will be giving this session on our behalf this year. It was very much appreciated last time we ran these sessions.
The Board asked that the Board are notified when these sessions will be taking place.

Risk Register

Additional drafting to be added to P2 on Risk Register to reflect the recent UK Government Gilt market volatility as a result of the mini-budget although the impact for the Fund was not significant.

Employer Contribution results arising from the 2022 Valuation are expected to be ready at time of Employer Forum.

We are waiting for a decision to be made by the Government on 17 November 2022 if pensions and deferred benefits will increase in line with September CPI this year. CPI in September 2022 was 10.1% but we will see if Government will maintain this link. We will know this before the Employer Forum so we can clarify this at that time.

There is a risk in relation to LINK who are the operators for the WPP Investments. The main concern being procurement risks if WPP needs to find a new operator quickly in advance of the normal procurement timetable.
The Board pointed out that LINK had been fined by the FSA, in view of this MP suggested that the risk level should be increased.
Officers confirmed we would leave the risk likelihood category as a 'C' but would increase to Impact rating to '2' which is significant.
Chris Lee believes everyone will be more comfortable with the change from Green to Amber for this Risk.
Officers confirmed that the report to the Pension Committee would change to C2 – based on recommendation from LPB

PK wanted it minuted that Mercers were not performing in relation to risk P15.

The Board also suggested that Risk P20 – Resource Implications should have its Residual Risk Likelihood changed to a 'B' - Likely. Resource issues are affecting a large number of the risks discussed.

The Board requested changes discussed should be added to the Risk Register to be presented to the Pension Committee. An updated version of the Risk Register to be presented to Pension Committee to be circulated to LPB members.

Investment Update

Officers provided an overview of the Fund value. Post pandemic recovery was very strong but value of the Fund had fallen back in 2022.

Proportion of the Fund investments in WPP sub-funds was highlighted. The Chair mentioned we should be proud of this achievement/development. Officers confirmed we are one of the highest Welsh funds in proportion.
The Board noted it was very positive news and maybe we should mention at the Employer Forum.

The Board were advised we are a very cash healthy Fund, and did not need to sell assets to cover liabilities/pensions in relation to the recent news about Bank of England intervention to buy Government Gilts. Difficult Market conditions were expected in the short term with predictions that this is likely to be the longest recession in 100 years, but potentially not the deepest but the role of the Fund as a long-term investor was highlighted.

An overview of the WPP Sustainable Equity Fund, including its exclusions, was provided. The Board asked what the coal was used for as union members want us to move away from carbon investment. Officers confirmed as an example, that the steel industry still use non-thermal, coking coal. It was confirmed that the carbon footprint of the Fund had been reduced significantly following recent developments to Fund Investments.

The Board note that under 40s are not interested in their pensions, however many under 40s are interested in the Funds carbon footprint.
It was confirmed Fund Managers and Investors are switching more to decarbonisation which is a great step forward.
The Board advised this information should be on the website as it is a good news story.

It was confirmed work on the WPP property fund will start early next year.

Board asked to note this update.

Annual Report 2021/22
The Pension Fund Statement of Accounts (SoA) will be approved by Council in late -November following the completion of the Audit.
The Pension Fund Annual Report, incorporating the SoA, will be presented for approval to the Pension Committee at its meeting on 28 November.

The Board were informed that the document was still a work in progress but the LPB would still get a good feel for how the final document would look and the information it would contain.
This year there will be a report from the LPB added to the Annual Report.

The look and feel of the Annual Report had been significantly improved over the last few years. Officers will continue to look at ways that the presentation of the Annual Report can be improved going forward.

The Board considered that within the Executive summary a paragraph should be included about the progress made with ESG developments. It was felt many people just read the executive summary.

The Board wanted to know why WPP costs table was still blank, and this area was highlighted as one of the areas of the Annual Report where further work was still required.
A completed version of the Annual Report will be circulated to LPB members.

Board asked to note progress with completion of the Annual Report.

AOB
The Board asked about on the progress of the 2022 tri-annual valuation. In particular whether the Fund was now fully funded and when Employers will know their employer contributions rates from April 2023?
It was confirmed that Aon were continuing to work on the Valuation, and information will be ready for presentation at the Employer Forum in mid-December.

The format of future meetings was discussed, and the Board decided that every other meeting would be in person.

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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