



**CYNGOR BWRDEISTREF SIROL  
RHONDDA CYNON TAF  
COUNTY BOROUGH COUNCIL**

**GWŶS I GYFARFOD O'R CYNGOR**

C.Hanagan  
Cyfarwyddwr Gwasanaeth y Gwasanaethau Democrataidd a Chyfathrebu  
Cyngor Bwrdeistref Sirol Rhondda Cynon Taf  
2 Llys Cadwyn  
Stryd Taf  
Pontypridd, CF37 4TH

Dolen gyswllt: Emma Wilkins - Council Business Unit (07385406118)

**DYMA WŶS I CHI** i gyfarfod o **PWYLLGOR CRONFA BENSIYNAU** yn cael ei gynnal yn **Rhithwir** on **DYDD MERCHER, 20FED MAWRTH, 2024** am **2.30 PM.**

**AGENDA**

**Tudalennau**

**1. DATGAN BUDDIANT**

Derbyn datganiadau o fuddiannau personol gan Aelodau, yn unol â gofynion y Cod Ymddygiad.

Nodwch:

1. Mae gofyn i Aelodau ddatgan rhif a phwnc yr agendwm y mae eu buddiant yn ymwneud ag ef a mynegi natur y buddiant personol hwnnw; a
2. Lle bo Aelodau'n ymneilltuo o'r cyfarfod o ganlyniad i ddatgelu buddiant sy'n rhagfarnu, rhaid iddyn nhw roi gwybod i'r Cadeirydd pan fyddan nhw'n gadael.

**2. COFNODION**

Derbyn cofnodion cyfarfod blaenorol Pwyllgor y Gronfa Bensiwn a gynhaliwyd ar 12 Rhagfyr 2023.

**3. DYSGU A DATBLYGU**

Derbyn cyflwyniad ar 'God Ymarfer Cyffredinol' newydd y Rheoleiddiwr

Pensiynau.

4. **ADOLYGIAD BLYNYDDOL O DDOGFENNAU LLYWODRAETHU A STRATEGAETH Y GRONFA**  
**11 - 40**
5. **ADRODDIAD AR SWYDDOGAETHAU DIRPRWYEDIG**  
**41 - 60**
6. **COFRESTR RISGIAU'R GRONFA BENSIWN – TROSOLWG O'R GOFRESTR RISGIAU**  
**61 - 72**
7. **PARTNERIAETH PENSIWN CYMRU - DIWEDDARIAD (GAN GYNNWYS CYNLLUN BUSNES PARTNERIAETH PENSIWN CYMRU 2024-27)**  
**73 - 90**
8. **TRAFOD CADARNHAU'R CYNNIG ISOD YN BENDERFYNIAD**  
"Bod y cyfarfod yma'n cadw aelodau o'r wasg ac aelodau o'r cyhoedd allan o ystafell y cyfarfod, dan Adran 100A(4) o Ddeddf Llywodraeth Leol (fel y'i diwygiwyd), yn ystod trafod eitem 9, ar y sail y byddai'n debygol o olygu datgelu gwybodaeth eithriedig yn ôl diffiniad paragraff 14 o Ran 4 o Atodlen 12A i'r Ddeddf."
9. **PARTNERIAETH PENSIWN CYMRU**  
Penodi gweithredwr a argymhellir ar gyfer Caffael Gweithredwr Partneriaeth Pensiwn Cymru.  
**91 - 102**
10. **MATERION BRYG**  
Trafod unrhyw faterion bryg y mae'r Cadeirydd yn eu gweld yn briodol.

## **Cyfarwyddwr Gwasanaeth y Gwasanaethau Democrataidd a Chyfathrebu**

### **Cylchreliad:-**

Cadeirydd ac Is-gadeirydd:

(Y Cynghorydd M Norris a Y Cynghorydd M Ashford)

Y Cynghorwyr Bwrdeistref Sirol: Y Cynghorydd K Johnson, Y Cynghorydd G Jones  
and Y Cynghorydd N H Morgan

tudalen wag



## **RHONDDA CYNON TAF COUNCIL**

Minutes of the virtual meeting of the Pension Fund Committee held on Tuesday, 12 December 2023 at 11.00 am.

### **County Borough Councillors**

Councillor M Norris (Chair)

Councillor M Ashford    Councillor K Johnson  
Councillor N H Morgan

### **Officers in attendance**

Mr B Davies, Deputy Chief Executive and Group Director of Finance, Digital and Frontline Services  
Mr P Griffiths - Service Director - Finance and Improvement Services  
Mr I Traylor, Service Director – Pensions, Procurement & Transactional Services  
Ms Y Keitch, Principal Accountant - Treasury Management and Pension Fund

### **Apologies for absence**

Councillor G Jones

### **Others in Attendance**

Mr K Bray – Local Authority Pension Fund Forum (LAPFF)

#### **51      DECLARATION OF INTEREST**

In accordance with the Council's Code of Conduct, there were no declarations made pertaining to the agenda.

#### **52      WELCOME**

The Chair welcomed County Borough Councillor K Johnson to his first meeting of the Committee.

#### **53      MINUTES**

It was **RESOLVED** to approve the minutes of the 9<sup>th</sup> October 2023 as an accurate reflection of the meeting.

#### **54      LEARNING AND DEVELOPMENT**

Through the aid of a Powerpoint presentation, Mr K Bray (LAPFF), provided Members with an overview of the role of the LAPFF in respect of 'Responsible investing – protecting shareholder value'.

Members were provided with the context of the LAPFF and its work with the Local Government Pension Scheme (LGPS). It was noted that the LGPS is a very significant institutional investor both nationally and internationally, and details of LAPFF's responsibilities, its structure and the areas of concern for

responsible owners were provided.

Mr Bray proceeded to advise of work undertaken by LAPFF in respect of climate change and provided examples of engagement with a major mining company in Brazil and also with the largest steel producer in the world as part of ambitions for it to become the world's first full scale zero carbon emission steel plant. Other recent successes were also provided for the benefit of Pension Fund Committee Members and Members were informed that more detailed updates are included within LAPFF Annual Reports and quarterly Engagement Reports.

The presentation was concluded with details of the future for the organisation and the benefits of LAPFF membership in delivering value for money. It was confirmed that LAPFF would remain a fund-based organisation, with a clear focus on engagement with companies and working in collaboration with LGPS Pension Funds.

The Chair thanked Mr Bray for the very informative presentation and advised that the Committee were in receipt of the LAPFF quarterly Engagement Reports referenced, which Members found very useful, and noted the good engagement that takes place with companies as part of these arrangements.

The Chair advised of the Committee's support to the ESCG work, commenting on the positive influence on companies. The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services concurred and noted the extent of qualitative work undertaken by LAPFF that has a positive influence on companies in terms of promoting the highest standards of corporate governance and corporate social responsibility.

Following the discussion Members **RESOLVED** to note the update.

## **55 DELEGATED FUNCTIONS REPORT**

The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services presented his report to Members, which provided the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement.

Members were advised that during the quarter ended 30<sup>th</sup> September 2023, the overall value of the Fund decreased from £4,263 million to £4,235 million. Reference was made to the rolling 3-year performance of the Fund, with the Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services advising of the 1.7% positive performance as compared to a benchmark of 4.3%.

The Committee were informed of the performance within the last quarter, to 30<sup>th</sup> September 2023, where it was detailed that Global Opportunities high alpha equity portfolio and UK Credit portfolio outperformed their benchmarks; Baillie Gifford Traditional Equity, Global Growth high alpha equity portfolio, Global Active Sustainable Equity portfolio and CBRE Property under-performed their benchmarks; and BlackRock Passive Global Equity (low carbon), BlackRock Passive UK Gilts and BlackRock Global Infrastructure Solutions performed in line with their benchmark.

The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services also provided a longer-term picture of the Fund's performance, over 10,

20 and 30 years, this showing the consistent delivery of positive and strong returns.

Members were referred to the tables at paragraphs 4.6 and 4.7 of the report which provided detail of the asset allocation of the Fund and the underpinning strategy.

With regard to infrastructure, the Committee were advised that the approach is for the Fund to invest over a number of years in order to optimise and secure opportunities across the different time periods (and vintage years) and details of such infrastructure was provided.

The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services provided information regarding the current decline in gilt and bond prices, which had resulted in the Panel agreeing to increase the bond allocation in line with the Fund's current strategy. Members were informed that this was funded from the Bailie Gifford exposure held outside of the pool for such purposes, as part of continuing to implement the asset allocation strategy. It was noted that this re-balancing exercise took place during October 2023 and at the end of October the equity exposure had reduced to 63%.

The Service Director Pensions, Procurement & Transactional Services continued the report by providing an administration update.

It was advised that the Pension Fund's 'Annual General Meeting' was successfully facilitated on 15th November 2023, with attendees from Pension Committee, Pension Board and 24 Fund Employers. It was also advised that the production of the Fund's 2022/23 Annual Report was concluded following the approval of the audited accounts at full Council on 29th November 2023 and was published prior to the statutory deadline.

Members were informed that The Pensions Regulator (TPR) is expected to publish their new General Code of Practice imminently. The new consolidated Code will set out new governance standards for occupational pension schemes.

In respect of the Pensions Dashboard Programme (PDP) it was confirmed that relevant industry parties were being consulted on proposed staging dates and it is anticipated that the revised public sector scheme staging will be published in Spring 2024. Legislation will be updated to set an overall connection deadline for all schemes by 31st October 2026.

Updates relating to the Department for Levelling Up, Housing and Communities (DLUHC) were provided in respect of its regulatory update and also its response to recent consultation on investment reforms. An update was also provided on the HM Treasury's valuation cycle for all public sector schemes being underway and it was confirmed that the outcome of the valuations are expected to be confirmed later in the financial year via the publication of each scheme's valuation report. The Service Director also fed back that the LGPS Scheme Advisory Board (SAB) are currently in the process of setting its own cost control mechanism and the assumptions on which this process is based are currently being agreed.

Details of the Annual Allowance 2022/23 pension taxation statement exercise were provided, with scheme pay arrangements accommodated where appropriate. It was noted that the HM Treasury announced in the Autumn

Statement on 22<sup>nd</sup> November 2023 that it will legislate in the Finance Bill 2023 to fully abolish the lifetime allowance (LTA) from 6th April 2024.

Updates were provided in respect of Member Self-Serve, the Service's key performance standards and the 'Internal Dispute Resolution Procedure'.

The Service Director concluded his update with details of the work of the Pension Board, advising of the current vacancy on the Board with a recruitment exercise to commence in the New Year.

The Chairman commented on the Pension Regulator's General Code of Practice publication timeline and the Service Director confirmed that, to date, no timescale had been provided.

A Member of the Committee requested clarity on the work undertaken to promote the Member Self-serve and spoke of the benefits of such a tool. The Service Director Pensions, Procurement & Transactional Services provided feedback on the on-going work to communicate with and encourage scheme members of the Pension Fund to utilise this provision and noted that engagement will continue to be a priority.

The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services provided a further update in respect of administration, noting the significant work pressures on the team and gave assurance that sound arrangements are in place to manage and prioritise workloads. The Deputy Chief Executive also highlighted the good recruitment and planning processes in place that forms a key part of service delivery arrangements.

Following the discussion it was **RESOLVED**:

- I. To note the issues being addressed; and
- II. To consider whether they wish to receive further detail on any issues.

## **56 PENSION FUND RISK REGISTER - RISK REGISTER OVERVIEW**

The Service Director, Finance & Improvement Services provided Members with an overview of the arrangements in place to manage risk within the Pension Fund.

The Service Director advised Members that the Fund maintains a Risk Register which is reviewed and updated on a quarterly basis and referred Members to the Risk Register attached at Appendix 1 for their consideration. Members were informed that no updates to the Risk Register were deemed required to that reported to the October 2023 Pension Fund Committee.

It was **RESOLVED**:

- I. To note the arrangements in place for the management of risk within the Fund; and
- II. To review the Risk Register (Appendix 1) and consider whether they wish to receive further detail on any issues.



**57 PENSION FUND STATEMENT OF ACCOUNTS 2022/23 AND AUDIT WALES REPORT**

The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services set out the Pension Fund Committee’s role in respect of the approval process for the Pension Fund Accounts and through his report provided Members with the opportunity to discharge their responsibilities in this respect.

For the Committee’s information, the Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services advised that the Pension Fund Accounts (Appendix 1) and Letter of Representation (Appendix 2) were reported to and approved by full Council on 29th November 2023 and the outcome of the external audit, undertaken by Audit Wales, was an unqualified audit opinion (i.e. a clean audit opinion) which was included at Appendix 3 of the report.

The Chairman commented positively on the Accounts and thanked officers for the hard work involved in producing the Statement of Accounts. A query was raised in respect of investment assets within the Net Assets Statement and those held outside the pooling arrangements. The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services sign-posted Members to this information, as included within the Statement of Accounts.

Following discussion it was **RESOLVED:**

1. To note the audited financial statements of the Pension Fund for the financial year 2022/23.

**58 WALES PENSION PARTNERSHIP - UPDATE**

Through the report, the Principal Accountant - Treasury Management and Pension Fund provided the Committee with an update on the work and progress with regard to the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

It was advised that the latest meeting of the JGC took place on the 20<sup>th</sup> September 2023 and the agenda had been shared with all Committee (and Board) Members before the meeting.

In respect of the forthcoming meeting of the JGC on 13th December 2023, the Principal Accountant - Treasury Management and Pension Fund listed the annual policies and papers which were to be reviewed. This covered a Host Authority update; WPP Business Plan 2023-24 Q2 review; WPP Training Policy; WPP Sub-fund Rebalancing and Alteration Policy; Stock Lending report; Operator update; Performance reports as at 30th September 2023; Responsible Investing and Climate Risk reports; Quarter 3 2023 engagement report of Robeco, the voting and engagement provide of the WPP; and Risk Register quarter 3 review.

The Committee were also informed of the next steps and priorities that covered the development of the Private Markets Sub-Funds and the Operator contract procurement process, and timelines for this process were provided. The Principal Accountant concluded by providing detail of the Task Force on Climate-Related Financial Disclosures (TCFD) reporting.

Members thanked the Principal Accountant for the information provided.

following discussion it was **RESOLVED**:

- i. To note the update.

**The meeting closed at 12.15 pm**

**Councillor M Norris  
Chair.**



## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2023-24

#### **PENSION FUND COMMITTEE**

**20<sup>TH</sup> MARCH 2024**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR  
– FINANCE, DIGITAL AND  
FRONTLINE SERVICES**

<b>AGENDA ITEM NO. 4</b>
<b>ANNUAL REVIEW OF FUND GOVERNANCE AND STRATEGY DOCUMENTS</b>

**Author – Barrie Davies, Deputy Chief Executive and Group Director –  
Finance, Digital and Frontline Services (01443) 424026**

#### **1.0 PURPOSE OF REPORT**

1.1 This report sets out the Fund Governance and Strategy Documents which fall within the remit of the Committee as detailed in the terms of reference.

#### **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee:

2.1.1 Review and consider any updates required to the Fund Governance and Strategy Documents as attached at Appendix 1 to 6; and

2.1.2 Approve the documents (subject to any required updates).

#### **3.0 BACKGROUND**

3.1 The agreed terms of reference of the Pension Fund Committee are as set out below.

#### **Terms of Reference**

The Pension Fund Committee have the following specific roles and functions with regards to the Rhondda Cynon Taf Pension Fund (the 'Fund'), taking account of advice from the Deputy Chief Executive and Group Director of Finance, Digital and Frontline Services (in their capacity as s151 Officer) and the Fund's professional advisers:-

- 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, ensuring appropriate funding plans are in place for all employers in the Fund, 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 of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
  - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers;
  - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers;
  - vi) Discretions – determining how the various administering authority discretions are operated for the Fund; and
  - vii) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.
- Monitoring the implementation of these policies and strategies as outlined above on an ongoing basis.
- 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.
- Receiving ongoing reports from the Deputy Chief Executive and Group Director of Finance, Digital and Frontline Services in relation to their delegated functions.
- 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 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.
- 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.
- Consider any pension compliance matters raised by the Fund's Pension Board.

3.2 This report sets out for the Committee the relevant Governance and Strategy Documents which fall within its remit and details the reporting arrangements for them.

#### **4.0 GOVERNANCE AND STRATEGY DOCUMENTS**

4.1 In line with regulatory requirements, the Fund has a duty to maintain and review (at least annually) a number of Governance and Strategy Documents, many of which need to be in place by the 1<sup>st</sup> April each year.

4.2 Accordingly, many of these have been reviewed by officers initially and considered by the Investment and Administration Advisory Panel and shared with the Pension Board. These are now presented to the Committee for review, comment and approval as appropriate.

4.3 Set out in table 1 below are the relevant documents, as detailed in the terms of reference, and the proposed reporting arrangements to this Committee. Those now reported for consideration by the Committee are shown.

**Table 1 – Strategy and Governance Documents**

<b>ToR Ref</b>	<b>Document</b>	<b>Committee Date</b>	<b>Comments</b>
i)	Governance Policy	20 <sup>th</sup> March 2024	No change
i)	Compliance Statement	20 <sup>th</sup> March 2024	<b>Updated</b> Attached as Appendix 1
ii)	Funding Strategy Statement	20 <sup>th</sup> March 2024	No change
iii)	Investment Strategy Statement	20 <sup>th</sup> March 2024	<b>Updated,</b> Attached at Appendix 2
iv)	Myners Compliance Statement	20 <sup>th</sup> March 2024	No change
v)	Stewardship Code	20 <sup>th</sup> March 2024	No Change
vi)	Administration Strategy	20 <sup>th</sup> March 2024	No Change

vii)	Communications Strategy	20 <sup>th</sup> March 2024	No Change
viii)	Discretions	20 <sup>th</sup> March 2024	No Change
ix)	Internal Dispute Resolution Procedure	20 <sup>th</sup> March 2024	No Change

## 5.0 **CONCLUSION**

- 5.1 This report sets out, for the Committee, the key Fund Governance and Strategy Documents for review and consideration in line with the Terms of Reference.

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# **PENSION FUND COMPLIANCE STATEMENT**

Updated March 2024

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## 1. Part II/A Structure

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b) 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.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓
c)				✓
d)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Local Pension Board has two member representatives who represent all categories of members, i.e. active, deferred and pensioner and two Employer representatives

## 2. Part II/B Representation

- a) 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).
- b) 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Local Pension Board has two member representatives who represent all categories of members, i.e. active, deferred and pensioner and two Employer representatives  
Regular skills and knowledge training is attended by Board and a register of events is maintained

### 3. Part II/C Selection and Role of Lay Members

- a) That committee 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The role of each committee is set out in the Governance Policy Statement. Continuous training and awareness sessions are provided to Committee, Board and Panel Members, as documented in the Fund's 'Knowledge and Skills Framework' Training log.

A separate 'Knowledge and Skills Framework' Training log is maintained for Pension Committee and the Investment and Administration Advisory Panel, with a similar requirement maintained in respect of the Local Pension Board members.

#### 4. Part II/D Voting

- a) 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

Voting rights are extended to the Pension Fund Committee which is politically balanced, and is responsible for the strategic management of the Fund. All operational functions are delegated to the Deputy Chief Executive and Group Director Finance, Digital & Frontline Services (as the Section 151 Officer or in his absence the Deputy Section 151 Officer).

All Pension Board members are deemed to have equal voting rights with the Chair having the casting vote if a majority decision cannot be reached

## 5. Part II/E Training, Facility Time and Expenses

- a) 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.
- b) 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

Policy on training and expenses are covered by the relevant authority policies. Appropriate LGA 'Trustee Training' is provided to all new Committee, Board and Panel Members.

A training plan is maintained for key pension personnel, together with a 'Knowledge and Skills Framework'.

A separate Knowledge and Skills Framework and Training Plan is maintained for RCT Local Pension Board members.

The Local Pension Board Terms of Reference outlines the policy on reimbursement of expenses for member representatives.

## 6. Part II/F Meetings

- a) That an administering authority’s main committee or committees meet at least quarterly.
- b) 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.
- c) That administering authorities 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓
b)				✓
c)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

AGM is held annually (as a virtual event in 2023) where questions can be addressed to members of the main committee, Communication Forum is held quarterly with representatives from Scheme Employers (including Admitted Bodies), Unions and Scheme Members. RCT Local Pension Board is made up of two employer and two member representatives. The member representatives represent all categories of members, i.e. active, deferred and pensioner. RCT Pension Committee meet quarterly. Wales Pensions Partnership (WPP) Joint Governance Committee meet at least quarterly. WPP Pension Board Chair engagement days are held with officers of the WPP twice yearly. Minutes are shared and discussed with the RCT Pension Board.

**7. Part II/G Access**

- a) 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

All members of the Investment and Administration Advisory Panel have equal access to all papers for meetings.  
 Communication Forum minutes / documentation is circulated to all other ‘Employers’ not in attendance.  
 All members of the RCT Local Pension Board have equal access to all papers for meetings.  
 All members of the RCT Pension Committee have equal access to all papers for meetings.  
 WPP Joint Governance Committee meeting papers and minutes are circulated to the Fund’s Pension Committee and Pension Board.

## 8. Part II/H Scope

- a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Pension Fund Governance Policy Statement sets out the governance structure, which includes a Discretions Panel that deals with matters concerning the exercise of discretions. Additionally, the Pension Fund Working Group review the wider pension scheme issues.



## 9. Part II/I – Publicity

- a) 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.

	Not Compliant	Partly Compliant	Mostly Compliant	Fully Compliant
a)				✓

Reason for non-compliance (Regulation 55(1)(c) 2014 Regulations):

Comments on ratings given above:

The Pension Fund Governance Policy Statement is on the Fund web-site or can be provided in hard copy if requested. ‘Employer’ Stakeholders are formally invited to participate in the Communications Forum meetings. The Local Pension Board has two member representatives who represent all categories of members, i.e. active, deferred and pensioner. Pension Committee representation and minutes are published on the RCT website. Pension Board representation and minutes are published on the RCT Fund website. WPP Joint Governance Committee minutes and relevant governance documents are published on the WPP host authority website.

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**INVESTMENT STRATEGY STATEMENT**  
**(Updated March 2024)**

**1. Overall Responsibility**

Rhondda Cynon Taf County Borough Council is the designated statutory body responsible for administering the Rhondda Cynon Taf Pension Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

The Council has created a politically balanced Pension Fund Committee consisting of elected members to oversee the Council's responsibility with regard to the administration of the Pension Fund. This Committee is responsible for the strategic management of the Pension Fund.

The Council has appointed the Deputy Chief Executive / Group Director – Finance & Digital and Frontline Services as the officer with Section 151 responsibilities to exercise delegated powers to make decisions in respect of operational matters of the Pension Fund investments and administration. An Investment and Administration Advisory Panel has been formed to support him in this capacity. This is made up of:

- Service Director – Finance and Improvement Services
- Service Director – Pensions, Procurement and Transactional Services
- Service Director – Finance Services
- Principal Accountant, Treasury and Pension Fund Investments
- Senior Accountant, Treasury and Pension Fund Investments
- Independent Advisors

Both the Committee and the Panel meets quarterly. The Council is not strictly a trustee (technically, this is the Department for Levelling Up, Housing and Communities (DLUHC)) but acts in a quasi - trustee role.

In accordance with the requirements of the Public Service Pensions Act 2013, a Pension Board has been established in order to assist Rhondda Cynon Taf County Borough Council, as “Scheme Manager” with achieving effective and efficient governance and administration of the Rhondda Cynon Taf Pension Fund.

The role of the Pension Board as defined by sections 5(1) and 5(2) of the Public Service Pensions Act 2013, is to assist Rhondda Cynon Taf County Borough Council Administering Authority as Scheme Manager to: -

- Secure compliance with the Principal Regulations and any other legislation relating to the governance and administration of the LGPS;
- Secure compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and

- Ensure the effective and efficient governance and administration of the LGPS by the Scheme Manager.

The Pension Board will provide oversight of the above matters and accordingly it is not a decision making body in relation to the management of the Fund itself.

Full details of governance arrangements can be found on the following link:  
[Governance Policy](#)

## **2. Primary Objective**

The Fund's objective is to provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined basis in accordance with LGPS regulations.

## **3. Funding Objectives**

Rhondda Cynon Taf County Borough Council should manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contribution is agreed by the Authority to meet the cost of future benefits arising.

The Funding Strategy Statement and the Investment Strategy Statement are intrinsically linked and together aim to deliver stable contribution rates for employers.

The investment objective is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, minimising long term cost.

The Fund's objective is to achieve a return on Fund assets that is sufficient, over the long-term, to meet the funding objectives on an ongoing basis.

The Deputy Chief Executive / Group Director - Finance and Digital Services supported by the Investment and Administration Advisory Panel will ensure that one or more Investment Managers are appointed who are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to manage the assets of the Fund. Contracts / mandates are in place giving instructions to the Managers as to how the investment portfolio is to be managed.

The Pension Fund Committee having taken account of advice from the Deputy Chief Executive / Group Director – Finance & Digital and Frontline Services may give specific directions as to the strategic asset allocations and will ensure the suitability of assets in relation to the needs of the Fund. The Investment Managers (each of which will have a benchmark and target to reflect their mandate) will be given full discretion over the choice of individual stocks and will be expected to maintain a diversified portfolio within the restrictions specified in each mandate.

**4. Diversification Policy : Requirement to invest fund money in a wide variety of investments**

The Fund invests in a range of asset classes to help reduce overall portfolio risk. This will ensure that if a single asset class is not performing well, this underperformance is balanced by other better performing assets at that time. The portfolio is also diversified to reduce volatility in performance.

The Fund is diversified into the following asset classes:

- Equities
- UK Gilts
- Corporate Bonds
- Property
- Infrastructure
- Cash

The Fund commissioned an Asset / Liability review in 2020, the fundamental aim of which was to position the Fund's investments in order to:-

- Reduce risk
- Maintain (as far possible) return expectations
- Minimise long term costs
- Increase diversification
- Optimise the transitioning of assets into the Pool
- Introduce Infrastructure (align to Pool aspiration)

thus ensuring the Pension Fund is being invested in the most efficient way.

Aon was appointed to give their view on the risk/return of the Pensions Fund's current investment strategy. Following on from this they were requested to comment and recommend alternatives that could deliver the Fund's long term objectives.

Simulations were undertaken for different portfolio asset strategies. The model estimated the probability of achieving a variety of funding outcomes over different time periods given the current asset allocation strategy. The majority allocation to equities in the portfolio gave a potentially high return, but was also the most significant contributor to overall risk.

Alternative asset allocation strategies were reviewed as a potential means of increasing diversification and reducing risk. Options were reviewed by the Panel, Committee and Board. It was noted that the Rhondda Cynon Taf Pension Fund was not particularly high risk compared to other LGPS funds and that some of the potential alternatives resulted in entering into asset classes that were expensive and difficult markets to enter.

The Committee concluded that the Fund should move toward the following asset allocation strategy with steps set out to achieve the desired allocation.

Asset Class	Pension Fund's allocation (31/03/2023)	Step 1 Reduction in Equities, increase in Govn and Corp Bonds	Step 2 Reduction in Equities for infrastructure investment	Step 3 Reduction in equities for additional infrastructure investment
Total Equities	69%	64%	59%	54%
Infrastructure	1%	0	5%	10%
Property	7%	7%	7%	7%
Government Bonds (UK)	10%	12%	12%	12%
Corporate Bonds (UK)	12%	15%	15%	15%
Cash	1%	2%	2%	2%

Following the above, the target and maximum percentages of total value of all investments that we will invest in particular investments or asset classes was as follows:

Asset Class	Target % of Fund	Max. % of Fund
Equities	54%	75%
Government Bonds	12%	35%
Corporate Bonds	15%	15%
Property	7%	15%
Infrastructure	10%	10%
Cash	2%	5%

The above target forms the basis of a customised benchmark which the Fund's performance is monitored against. The customised benchmark moves in line with market volatility. The asset allocation of the portfolio is not rebalanced on a routine basis but is reviewed annually to ensure the target return is not adversely impacted.

We may not permit more than 5% of the total value of all investments of fund money in entities that are connected with the Authority in line with Section 212 of the LG and Public Involvement in Health Act 2007.

In assessing the diversification policy, the Fund will consult with Independent Advisors.

#### **5. Asset Allocation Policy : Assessment of the suitability of particular investments and types of investments**

Investments are selected with their suitability to meet the Fund's overall objective of meeting pension obligations as they fall due. The level of return required is informed by the triennial actuarial valuation.

In the long term, low volatility assets such as gilt-edged investments behave in a similar manner to pension liabilities and would therefore "match" the attributes of pension obligations. However the requirement to achieve a longer term higher rate

of return is, on average, achieved by other classes of assets such as stocks or property.

The current portfolio has been constructed with actuarial and independent advisor advice to achieve a specified level of return within risk parameters.

A management agreement is in place for each Investment Manager which sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions as determined by the Pension Fund Committee.

The following demonstrates the allocation of the Fund as at March 2023:

	% of Fund Invested
Equities	18.5
Pooled Fund	
WPP Global Equities	45.4
WPP UK Credit	12.2
Other Pooled Funds	
Passive UK Gilts	10.3
Passive Equities	5.3
Pooled Property	6.8
Infrastructure	0.7
Cash & Deposits	0.8

The Pension Fund Committee has agreed not to invest in private equity at the present time.

The Pension Fund Committee has agreed to stock lend in line with the following principles :

- Appropriate collateralisation and indemnification;
- A level of stock is held back to maintain ability to vote;
- The ability to call back stock to vote on specific issues.

The Asset Allocation Strategy is reviewed annually by the Investment and Administration Advisory Panel to ensure that returns, risk and volatility are managed and consistent with overall investment strategy.

## **6. Policy On Risk : *Approach to risk, including the ways in which risks are measured and managed***

The Fund maintains a Risk Register that is agreed by the Investment and Administration Advisory Panel and reported to the Pension Board and Pension Committee on a quarterly basis. The risk register examines funding, investment, operational, governance and regulation issues, ranks risks in terms of likelihood and impact and details mitigation measures.

### **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 adoption of an asset allocation benchmark and the monitoring of performance relative to a performance target constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage the Fund in such a way to enhance returns.

The overall investment objective is to maximise investment returns and to minimise employer contributions over the long term within agreed risk tolerances.

The requirement is to be 100% funded. The funding level is calculated triennially, following an actuarial review.

The Fund's assets are managed on an active basis (except the Global Passive Equity mandate and the Passive UK Gilt mandate) and are expected to outperform their benchmarks over the long term. In this way the investment performance achieved by the Fund is expected to exceed the rate of return assumed by the Actuary within the valuation.

The Fund's Investment Managers have been given weighted average benchmarks and targets to reflect their mandates. Both asset allocation and stock selection is monitored. The current targets for each mandate are as follows:-

Portfolio	Portfolio Benchmark Index	Portfolio Target
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Traditional equity	UK - FTSE All Share US – FTSE All World Europe – FTSE All World Europe Far East – FTSE All World Developed Asia Other Intl – MSCI Emerging Index	Composite Index +1% pa over rolling 3 year period
Global passive equity	MSCI World Low Carbon Target Reduced Fossil Fuel Select 12 BST	Index
Global high alpha equity	MSCI All Countries World Index	Index + 2% over rolling 3 year period
Infrastructure		9% IIR (net of fees with a 4% p.a. cash yield)
Passive UK Gilt	FTSE Actuaries UK Conventional Gilts All Stock	Index
UK Credit	ICE BofA ML Eur-Sterling	Index plus 0.65%
Property	CPI plus 4.5%	

Review of the Investment Managers is ongoing based on the quarterly and annual performance data supplied to the Panel by external performance management agencies.

The appointment of more than one Investment Manager introduces diversification of manager risk as discussed above.

Each Investment Manager is expected to maintain a diversified portfolio of investments and adhere to restrictions imposed within their agreement.

Investment Managers also have investment restrictions as follows:

	Max. 10% in any single holding	Max. of 10% held in cash	Max. of 5% held in cash	No single overseas equity exceeds 5% of total value of fund	Max. holding of 25% in trust scheme	Max 25% in Emerging Markets
<b>Baillie Gifford Traditional Equities</b>	X	X		X	X	
<b>WPP Global Growth Fund</b>	X	X			X	
<b>WPP Global Opportunities Fund</b>	X				X	X
<b>WPP UK Credit</b>	No limits as pooled funds					
<b>BlackRock Passive Equities</b>	No limits as pooled funds					
<b>BlackRock Passive UK Gilts</b>	No limits as pooled funds					
<b>BlackRock GIS4 Solutions</b>	No limits as pooled funds					
<b>CBRE Property</b>	X		X			

The performance of both markets and Investment Managers is reviewed regularly by the Investment and Administration Advisory Panel, which has the appropriate skills and training required to undertake this task. The Panel is also supported by Independent Advisors providing advice to enable the Panel to robustly fulfil its functions.

### **Environmental, Social and Governance risks**

The Fund believes that environmental, social and governance (ESG) factors should be taken into account on an ongoing basis and are an integral part of the Fund's responsibilities as a long-term sustainable investor.

The Fund is committed to carbon transition and to the parallel process of reducing fossil fuel exposure.

Fund engagement with investee companies is crucial in relation to improving standards of corporate governance, which over the long term is expected to enhance investment returns.

**7. Approach to pooling investment, including the use of collective investment vehicles and shared services.**

The Wales Pension Partnership (WPP) has appointed Link Fund Solutions Ltd (Link) to establish and run a collective investment vehicle for the sole use of the LGPS funds in Wales. This will enable the pooling of assets across a range of asset classes.

Link have established and will run an Authorised Contractual Scheme (a tax efficient UK collective investment vehicle) on behalf of the WPP. The ACS will have sub-funds in a range of asset classes that will meet the needs of the LGPS funds in Wales, to allow them to execute their differing asset allocation strategies.

With the support of Russell Investments, and in consultation with the eight individual LGPS Funds, Link have begun the process of appointing a number of Investment Managers. Each LGPS Fund in the pool will retain full control over strategic asset allocation decisions. Northern Trust will have custodian duties.

By using fewer Investment Managers with larger mandates, it is expected that the WPP will deliver fee savings, one of the primary aims of Government policy. A summary of the pooling objectives of the WPP are:

- Generate consistent net of fee excess returns.
- Diversify manager risk.
- Reduce average manager fees.
- Achieve tax efficiency by reclaiming withholding tax on dividends (for non-UK equity sub-funds).
- Equitably share the costs of transitioning into sub-funds.

Progress continues to be made by the Wales Pension Partnership (WPP) in the establishment of appropriate sub funds to satisfy the investment objectives across the Welsh Funds. The first two sub funds for the collective investing of assets was launched during January 2019 and related to Global High Alpha Equities. The sub fund for UK and European Equities was launched during September 2019. The third phase related to Fixed Interest with five sub funds being launched during July 2020 (Global gilts, global corporates, UK corporates, multi asset credit and absolute return bonds). The fourth sub fund related to emerging market equities and was launched October 2021

**8. How social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.**

The overriding principle of the Fund's investment policy is to obtain the best possible financial return using the full range of investments authorised under the Local Government Pension Scheme regulations.

Although the pursuit of a financial return is our predominant concern, where possible, the Fund is committed to include Responsible Investment factors (environmental, social and corporate governance factors) into the investment process. These non-financial factors are considered to the extent that they are not detrimental to the Fund's investment returns. The incorporation of these factors into Investment Managers' stock selection decisions should serve to enhance the process, rather than restrict choice in any way. The Fund does not negatively screen stocks from the investment universe available to Managers.

The Fund requires its Investment Managers to integrate all material financial and non-financial factors, into the decision-making process for all investments. Furthermore, it expects its managers to proactively engage, influence and promote good corporate governance in the companies and markets to which the Fund is exposed. The Fund's Investment Managers provide updates on their activities in this regard.

All of the Fund's Investment Managers are signed up to the United Nations Principles of Responsible Investment (UNPRI) which encourages asset owners and asset managers to incorporate environmental, social and governance (ESG) issues into investment analysis and decision making, be active owners, seek disclosure of ESG issues and promote the principles within the industry.

The six principles are:

- We will incorporate Environmental, Social and Governance issues into investment analysis and decision-making processes;
- We will be active owners and incorporate Environmental, Social and Governance issues into our ownership policies and practices;
- We will seek appropriate disclosures on Environmental, Social and Governance issues by the entities in which we invest;
- We will promote acceptance and implementation of the Principles within the investment industry;
- We will work together to enhance our effectiveness in implementing the Principles; and
- We will each report on our activities and progress towards implementing the Principles.

The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

The Fund recognises the focus and financial risks associated with climate change, fossil fuels and carbon management. The Fund remains committed to an orderly carbon transition and has set out its approach in Appendix A to this Investment Strategy Statement.

The Fund is also committed to adhering to the principles of the Stewardship Code.

## **9. Exercise of Voting Rights attached to investments.**

Long term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility. Poor governance can negatively impact shareholder value.

This Fund recognises the importance of stewardship and engagement via the equity fund managers is exercised to exert a positive influence on companies.

The Wales Pension Partnership has employed a voting and engagement provider to exercise its voting rights to promote good corporate governance and social and environment responsibility. A proportion of stock is held back from stock lending activities to facilitate this. The Provider supplies quarterly voting activity reports.

The Equity Fund Manager employed outside the WPP is expected to exercise their voting rights. The Fund has agreed a voting template which incorporates best practice governance guidelines. An independent voting agency is employed to monitor and compare the voting records of the manager against this template. The manager provides quarterly voting activity reports.

## **10. Myners Principles of Good Investment Guidance.**

The Fund assesses and reviews its own compliance with the Myners Principles annually. The Fund has assessed itself to be fully compliant with the principles below:

- Principle 1. Effective Decision Making
- Principle 2. Clear Objectives
- Principle 3. Risk and liabilities
- Principle 4. Performance assessment
- Principle 5. Responsible ownership
- Principle 6. Transparency and reporting

## Appendix A

### Rhondda Cynon Taf Pension Fund – Responsible Investment and Carbon Investment Principles

The Rhondda Cynon Taf Pension Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme (LGPS).

The nature of the Fund and scheme design means that payment of pensions will extend over the very long term. In considering the Fund's investment strategy, the Fund seeks to operate

- a long term, sustainable strategy;
- one which does not rely upon the pursuit of short term returns;
- a well-structured asset and fund manager investment allocation which targets long term socially responsible, sustainable investment performance.

The Fund deploys a relatively uncomplicated investment structure which seeks to provide a return on investments which is above the level of pension liabilities and which seeks to achieve 100% funding over the long term.

As a long term investor, the Fund must be comprehensive in the consideration and mitigation of risks that the portfolio faces and investments are diversified across a number of asset types.

Rhondda Cynon Taf Pension Fund recognises the investment implications of climate change and carbon emissions.

The Fund is committed to an orderly carbon transition and believes active engagement with investee companies, rather than divestment, is the preferred option to bring about change whilst managing overall investment risk issues. In this regard, the Fund requires its Investment Managers to engage with investee companies and seek to ensure that their business objectives are aligned to reducing carbon exposure.

We do however also recognise that there may be instances where divestment is an appropriate course of action and have identified principles to guide us in this regard.

This document outlines out how the Fund will approach this divestment, how the risks and other considerations associated with such a commitment will be managed and how the divestment over time will be incorporated into the asset allocation strategy for the Fund.

The overall approach of the Fund to incorporating wider environmental social and governance issues (ESG) is set out in more detail within the Investment Strategy Statement.

## **Principles**

### **1. Responsible Investor**

We are of a firm view that as responsible owners we have a voice and an ability to influence strategic change within investee companies and that this can be more powerful than disinvesting alone.

### **2. Asset allocation**

We will incorporate all ESG factors into our asset allocation and investment strategy considerations.

### **3. Investment Managers**

We will ensure that all our investment managers are signed up to the United Nations Principles of Responsible Investment (UNPRI), that they engage effectively and are transparent in telling us how they are making a difference. Where investee companies are not aligning themselves to reduce long-term carbon exposure then we will disinvest, in an orderly way.

The Fund demands that all its Investment Managers properly consider climate related and other environmental social and governance risks in decision making within their respective portfolios.

As and when investment managers and asset allocations require amending, the risk of fossil fuel exposure will be incorporated into any due diligence regarding risk and reward decision making.

The Fund's passive equity mandate is managed through a low carbon product

### **4. Stakeholder engagement**

The Fund's primary purpose is to be able to pay for pension liabilities over the long term. There are national arrangements in place to reduce pension benefits if the LGPS is unable to sustain itself through loss of value or growth in liabilities. We therefore have a duty to ensure that the future pension entitlements of members are not compromised.

However, we do hold the view of "a world worth living in" as one of our guiding principles.

### **5. Long Term and alignment to global goals**

As an open fund, we are long term investors and must not be overly influenced by short term factors and influences.

## **6. Working Together**

We will collaborate with other Welsh Funds through the Wales Pension Partnership and seek to align our long term goals with our partners. It is important that the Fund works with our partners to share knowledge and best practice as well as utilising collective assets to push for the most effective and efficient implementation of reduced fossil fuel strategies. We will also work with other funds nationally through our membership of the LAPFF to encourage companies to adopt the highest standards with regard to fossil fuel and energy efficiency.

## **7. Risk Mitigation**

Investment Managers must consider ESG and Climate Change / Carbon Exposure in their investment decisions, specifically with regard to risk mitigation and be clear on any negative implications.

## **8. Transparency**

We will understand the Fund's exposure to Carbon through a systemic approach, engaging with experts to thoroughly and robustly baseline our position and monitor going forward.



**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2023-24**

**PENSION FUND COMMITTEE  
20<sup>TH</sup> MARCH 2024**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR –  
FINANCE, DIGITAL AND FRONTLINE  
SERVICES**

**AGENDA ITEM NO. 5**

**DELEGATED FUNCTIONS –  
UPDATE REPORT**

**Author – Barrie Davies, Deputy Chief Executive and Group Director – Finance,  
Digital and Frontline Services (01443) 424026**

**1.0 PURPOSE OF REPORT**

1.1 This report sets out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services.

**2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee:

2.1.1 Note the issues being addressed; and

2.1.2 Consider whether they wish to receive further detail on any issues.

**3.0 BACKGROUND**

3.1 The Deputy Chief Executive and Group Director - Finance, Digital and Frontline Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day-to-day operational matters.

3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are:-

- Selection, appointment, and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator and independent professional advisers.
- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- Agreeing the terms and payment of bulk transfers into and out of the Fund.
- Agreeing Fund business plans and monitoring progress against them.
- Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- Ensuring the Fund is managed, and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, His Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- Ensuring robust risk management arrangements are in place.
- Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
- Monitor investment performance.
- Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund and ensure such contributions are received.

3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 12<sup>th</sup> March 2024.

#### **4.0 INVESTMENT PERFORMANCE**

4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular

concerns. The most recent Panel Meeting considered investment performance to the end of December 2023.

- 4.2 During the quarter ended 31<sup>st</sup> December 2023, the overall value of the Fund increased from £4,235 million to £4,492 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below:

### Total Portfolio

	2021				2022				2023				3yr
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Fund	1.6	5.4	0.3	1.6	-6.5	-8.9	-2.7	2.6	3.4	0.3	-0.3	6.3	<b>0.7</b>
B'mark	1.1	5.1	0.7	4.2	-3.2	-6.8	-2.8	3.5	3.5	0.9	0.8	6.1	<b>4.1</b>
Relative	0.5	0.3	-0.4	-2.6	-3.3	-2.1	0.1	-0.9	-0.1	-0.6	-1.1	0.2	<b>-3.4</b>

- 4.4 As shown, the rolling 3-year performance of the Fund is 0.7% positive as compared to a benchmark of 4.1%. For the last quarter (i.e. quarter 4), Baillie Gifford Traditional Equity, Global Active Sustainable Equity, UK Credit and BlackRock Passive Global Equity (low carbon) outperformed their benchmarks; Global Growth high alpha equity portfolio, Global Opportunities high alpha equity portfolio and CBRE Property under-performed their benchmarks; BlackRock Passive UK Gilts and BlackRock Global Infrastructure Solutions performed in line with their benchmark.
- 4.5 The 12<sup>th</sup> March 2024 Panel meeting included a review of fund managers' performance. Presentations were received from Baillie Gifford (the traditional equity manager) and CBRE (the real estate manager).
- 4.6 The asset allocation of the Fund, by Fund Manager and mandate as at 31<sup>st</sup> December 2023 (which includes cash), is shown in the table below:

Baillie Gifford Traditional	Global Equities	9%
Link – Global Opportunities Fund	Global High Alpha Equities	10%
Link – Global Growth Fund	Global High Alpha Equities	37%
Link – UK Credit Fund	UK Credit	16%
Link – Sustainable Equity Fund	Global High Alpha Equities	2%
BlackRock	Passive Global Equities	6%
Blackrock	Passive UK Gilts	12%
CBRE	UK Property	7%
Blackrock GIS 4 Solutions	Infrastructure	1%
Capital Dynamics	Local Investment	0%
Internal	Cash	0%

- 4.7 The asset allocation strategy for the Fund is set out below along with the steps being taken as we continue to move toward it.

Asset Class	Current Allocation	Step 1	Step 2	Step 3
Total Equities	64%	64%	59%	54%
Infrastructure	1%	0	5%	10%
Property	7%	7%	7%	7%
Government Bonds (UK)	12%	12%	12%	12%
Corporate Bonds (UK)	16%	15%	15%	15%
Cash	0%	2%	2%	2%

- 4.8 With regard to infrastructure, the approach is for the Fund to invest over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).
- 4.9 The Pension Fund is progressing the investment into Blackrock GIS4 Infrastructure Fund. Capital contributions to date total €41.123 million.
- 4.10 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage launched by the WPP. Capital contributions to date total £16.420 million.
- 4.11 A £10 million commitment into a local impact opportunity was agreed in the form of a wind farm investment. Capital drawdowns to date totals £2.662 million.
- 4.12 Given the current decline in gilt and bond prices, the Panel agreed to increase the bond allocation in line with the Fund's current strategy. The increase was funded from the Bailie Gifford exposure held outside of the pool for such purposes as we continue to implement the strategy. This re-balancing exercise took place during October 2023.
- 4.13 The necessary due diligence was completed for the Pension Fund to make a commitment of \$75 million into the BlackRock Renewable Power IV product. The first close was 21<sup>st</sup> October 2023.

## **5.0 ADMINISTRATION UPDATE**

- 5.1 The Pensions Regulator (TPR) has published the new General Code of Practice, which comes into force on 27<sup>th</sup> March 2024. The Rhondda Cynon Taf Pension Fund Working Group has discussed and is to undertake an analysis of compliance. TPR has indicated that whilst the Code is effective from March 2024, time would be afforded to allow Pension Funds to plan and measure their compliance during the first six months. The Fund's Pension Board will receive regular updates and support our compliance assurance arrangements.

- 5.2 Further to the Pensions Dashboard Programme (PDP) progress update set out in the Delegated Functions Update Report to the December 2023 Pension Fund Committee, no further update has been received; revised onboard dates are still to be legislated and the overall deadline of October 2026 currently remains.
- 5.3 The Pension Fund increase for April 2024 and Career Average Revalued Earnings (CARE) revaluation has been formally confirmed by HM Treasury as 6.7% (i.e. the Consumer Prices Index (CPI) rate of inflation at September 2023) and will be effective from 8<sup>th</sup> April 2024.
- 5.4 Year-end preparatory work is underway in respect of Accounting 2024 Terms of Reference and Data template issued, and the HM Treasury 'Event Report' and The Pensions Regulator 'Scheme Return' was submitted on time, the latter included the Fund's annual data scores (Common data 97%, Scheme Specific data 98%).
- 5.5 Key areas of work are progressing in respect of compiling the 2024 Annual Benefits Statements; the annual life certification exercise for overseas pensioners; and transfer of provider for overseas pension benefit payments, this being aligned to the provider undertaking the life certification exercise of behalf of the Fund. Alongside this, digital developments are progressing to support on-going process efficiency around expanding 'admin to pay' interface functionality to refunds, transfers and death payments and also secure 'Employer Document Upload' functionality being rolled out to more Fund Employers.
- 5.6 The Fund's McCloud working group continue to make good progress in respect of Employer data collection and sign-off, with updates made to members records as necessary. In parallel, McCloud membership letters were issued in December 2023, ensuring compliance with the Disclosure Regulations.
- 5.7 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at February 2024).

	Member Numbers	MSS Registrations	Current Percentage Take-up	Percentage Reported Previously
Actives	25,281	12,814	50.69%	50.56%
Deferred	30,055	12,329	41.02%	40.13%
Pensioners	19,566	6,947	35.51%	33.79%
Dependants	3,129	220	7.03%	6.86%

- 5.8 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Investment and Administration Advisory Panel and Pension Board. Overall, service performance is positive, with high levels of activity and

an on-going focus on individual and team development. Looking ahead, a review of Service Standards, in line with the Scheme Advisory Board (CIPFA) standardised requirements, is underway in preparation for reporting during 2024/25.

- 5.9 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report.

## **6.0 PENSION BOARD**

- 6.1 The Pension Board last met on a hybrid basis on 16<sup>th</sup> January 2024.
- 6.2 The recruitment process to appoint a Scheme Member Representative has been completed.
- 6.3 There were no formal items raised by the Pension Board requiring feedback to Committee.
- 6.4 Pension Board Members have continued to support their skills and knowledge requirements through attendance at relevant events.

## **7.0 OTHER ISSUES**

- 7.1 The Panel reviewed the skills and knowledge framework and noted the updates.
- 7.2 The Risk Register was considered, and the position noted. A review of the Risk Register is being dealt with elsewhere in this agenda.
- 7.3 Attached at Appendix 1 is the latest LAPFF quarterly engagement report for the period October to December 2023.

## **8.0 CONCLUSION**

- 8.1 This report sets out, for the Committee, the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services.

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Quarterly  
Engagement  
Report

October-December  
2023



# Say on Climate, National Grid, BP, UN Forum on Business and Human Rights, Rio Tinto



## UPDATES

# ACTION

## LAPFF Conference

LAPFF held its 2023 annual conference in Bournemouth, covering a range of topics with a particular focus on climate-related issues. On the first afternoon, delegates heard from Richard Eadie and Simon Davy on how water companies can better deliver environmental value. This was followed by a discussion panel on how LGPS funds are managing climate-related financial risks. The first day closed with a review of the 2023 shareholder resolutions and a glimpse of the ones to come in 2024.

The second day kicked off with a discussion panel on the significance of proxy voting choices for investors in passive funds and the breakthrough introduction of passthrough voting. This allows asset owners to adopt their own

voting policies in pooled funds. Delegates then heard from asset managers on how they respond to the recent headline phenomenon of an ESG backlash. This was followed by a deep dive from Sir Philip Augar on whether investors should be concerned about the listing rules review.

The afternoon had a strong climate-related focus, opening with a discussion on how clean and equitable EV supply chains can be ensured, an emerging area of importance in the endeavor to decarbonise. This was accompanied by a session on how nature-related risks and the biodiversity crisis are managed and tackled. Another session outlined the role of alternatives in the race to achieving net zero by 2050. Also in the afternoon,

delegates engaged in a poignant discussion on investors' role in ending modern-day slavery, highlighting the pressing need and methods to take action and make change.

The final morning of the conference opened with a session with economic commentator, Will Hutton, on the great pay divide between executives and employees, followed by a discussion on the Living Wage with a representative from the Living Wage Foundation. This was followed by a presentation from LGA adviser, Barry Quirk, on levelling up. The conference closed with an inspirational story by Dave Fishwick about his journey to creating the Bank of Dave to help local businesses and communities in the wake of the 2008 financial crisis.



# COMPANY ENGAGEMENTS

## CLIMATE ENGAGEMENTS

LAPFF engages on climate change through both policy and company engagement channels. This dual approach is necessary to ensure that companies have an enabling environment to promote their climate change mitigation and adaptation work.

### Say on Climate

**Objective:** Despite the significant investment risks of climate change, investors are not provided with a specific vote by investee companies on how they are seeking to decarbonise their business models. Against the backdrop of growing climate risks, rising expectations from investors for companies to outline their climate strategy, continued ratcheting up of climate regulations and emerging recommendations from the Transition Plan Taskforce, LAPFF has been engaging companies for the past few years on putting their transition plans to a shareholder vote. Last quarter, LAPFF coordinated an investor letter to 35 FTSE companies in high emitting sectors requesting such a vote. The letter was signed by 18 other investors with around £1.8tn AUM.

**Achieved:** LAPFF has received substantive responses to the letter, with some companies outlining their approach to climate and stating that they are considering such a vote for their AGM next year. Some companies outlined previous votes and their intention to continue to hold similar votes in the future. However, others stated either that they did not plan to hold such a vote and engaged shareholders through other means or that while having a vote in the past, they did not have immediate plans to do so again.

**In progress:** Despite additional companies having transition plan votes, they are not standard practice and often absent at AGMs where climate risks are most acute. LAPFF will continue to work with other investors engaging companies on having transition plan votes to enable investors to have a specific say on the climate strategies of investee companies.

LAPFF's main company engagements on climate this quarter were with National Grid and BP.

### National Grid

**Objective:** LAPFF, along with two other investors of CA100+ Working Group, Church of England and Northern Trust, has been seeking to improve National Grid's disclosure and accountability on direct and indirect lobbying. The CA100+ benchmark on National Grid places it below its peer companies under indicator 7 on lobbying. In June 2023, National Grid pledged to publish its trade association memberships and updated climate policy ahead of the next AGM. LAPFF therefore is seeking to ensure the company's disclosure is timely and of a high standard.

LAPFF has also been seeking to ensure the company is more transparent about its plans to support the energy transition and reducing grid connection. The objective was to encourage disclosure and to offer the opportunity to provide feedback on the company's approach in both respects. LAPFF also sought a separate climate meeting with the company and to write a lobbying letter to National Grid seeking disclosure of industry associations and an updated climate policy.

**Achieved:** In November, LAPFF together with the Church of England wrote to the company, stating expectations for its upcoming lobbying report.

At the end of November, LAPFF met the Chief Sustainability Officer of National Grid. In this meeting LAPFF asked for an update on the backlog of grid connections and an update on the transition plan. The recent change in regulations has enabled the backlog to start to be cleared. This has been a main concern as the average time between requesting a connection and being offered one has increased from 18 months in 2019-20 to 5 years in 2023, as reported by the company. The easing of regulations will allow the company to terminate projects not progressing and push projects which are ready to the front of the queue.

Given that the expected power to be generated from these held-up contracts is as much as 400 Gigawatts with connection dates of 2030 or later, this

change will help towards decarbonising the power systems by 2030. However, there is still a challenge in speeding up building necessary infrastructure to physically enable the grid connections. LAPFF will monitor the effect of lifting these regulations and how quickly the company clears the backlog and is also looking for clarity in its infrastructure development plans.

The meeting also discussed the new transition plan to be published next year. LAPFF welcomed the fact that this is likely to be updated next year and will be put to a shareholder vote. LAPFF also encouraged the company to ensure the report is not only about reducing emissions but how the company can facilitate new infrastructure to be built, and its wider role in the energy transition. The company also recognised a challenge in reaching long-term targets of net zero by 2040 in absence of a pathway for gas distribution in the US.

**In Progress:** The release of the lobbying disclosure report next year in good time before the AGM is expected and will enable the Forum to assess the progress made in the company on this area. So far National Grid appears to be responding well.

LAPFF also expects the new transition report to be released and to address the points have raised here. A key outstanding issue is gas distribution in the US, where the company asserts the ongoing importance of gas networks to the business due to its existing infrastructure and cost efficiency and envisage both hybrid solutions and clean gas. To address this LAPFF will seek to understand the US energy market in more detail. On engagement specifics, LAPFF is organising a wider CA100+ meeting in January and will arrange some direct follow up meetings through 2024.

### BP

**Objective:** With the surprise departure of Chief Executive Bernard Looney, LAPFF requested a meeting with the Chair, Helge Lund, to help ascertain whether that departure affected BPs climate commitments.

**Achieved:** LAPFF attended a meeting with Lund in November, where we were told that the departure of the CEO had

## COMPANY ENGAGEMENTS

not changed BPs climate commitments.

**In Progress:** Since that meeting COP28 has strengthened the emphasis for solutions to the transition away from fossil fuels, which emerged as a last-minute compromise instead of the original goal to “phase out fossil fuels.” Prior commitments were in the form of far more malleable goals of “net zero by 2050” and complicating matters with Scope 1, Scope 2 and Scope 3 emissions. LAPFF’s policy for several years has been that fossil fuel components of businesses need to be put into managed decline.

With a closer match between COP and LAPFF policy, the emphasis on phase out will be the focus of BP and other oil and gas companies. Scope 3 emissions, originating from the products sold by fossil fuel companies, have been obfuscated by a focus on the comparatively minor Scope 1 and Scope 2 emissions, missing the obvious point that less Scope 3 extraction naturally leads to less Scope 1 and Scope 2.

Housebuilding also has a large impact on climate change. As part of an ongoing engagement with the sector, LAPFF met with **Persimmon** this quarter.

### Persimmon

**Objective:** Minimising the investment risks associated with climate change involves decarbonising housing stock. Housebuilders therefore play an important role in reducing emissions as well as facing regulatory risks if they fail to prepare for higher energy efficiency and emissions standards. As part of LAPFF’s engagements with UK housebuilders, LAPFF seeks to ensure that adequate transition plans are in place. With the vast majority of emissions not coming from their own activities, the engagements focus on plans for decarbonising supply chains and decarbonising homes in use.

**Achieved:** LAPFF met with representatives from the FTSE100 housebuilder Persimmon. In the meeting LAPFF had an open discussion about target setting which covered issues around embodied carbon. The meeting covered transition planning and plans. The discussion touched on so-called hard to abate sectors within the supply chain, such as cement and offsetting,



Persimmon housing estate Suffolk, UK trial schemes for net zero homes, and engagement with smaller suppliers on the transition.

**In progress:** LAPFF will be following the development of housebuilders’ transition plans and delivering on the targets that they have set.

## CLIMATE & INSURANCE

LAPFF has also re-started its 2020 engagement with insurance companies on their climate strategies and practices. After meeting with Munich Re last quarter to discuss the company’s progress on assessing its impact on climate change and integrating climate considerations into corporate strategy and operations, LAPFF met with **AIA, AXA, Legal & General, Lloyds Banking Group, and Ping An** to discuss the same issues. Given the interest of LAPFF members in natural resources – and specifically biodiversity – LAPFF also asked these insurers how they are addressing natural resources within their climate strategies.

While there has been some progress in insurers’ understanding of the need to assess their impacts on climate change in order to understand their climate-related business risks (otherwise known as double materiality), in LAPFF’s view there has not been enough progress on this front. In particular, insurers are focusing almost exclusively on their investment businesses in relation to climate mitigation. This approach makes sense at face value, but LAPFF would like

to see greater consideration given to the role the insurance products can play in mitigating climate change through setting societal expectations of risk.

All companies engaged are at the beginning of understanding the relationship between climate and natural resources and how to bring natural resources into business decision-making. Therefore, LAPFF will aim to engage with the remaining large insurance holdings before moving on its largest bank holdings under this engagement.

Because there is an increasing recognition of the impact that climate change has on natural resources, LAPFF has engaged a range of companies on their impacts on nature.

### TJX Companies – Deforestation

**Objective:** As a retailer specialising in brand-name clothing, home goods, and outdoor products, TJX Companies is exposed to various commodities that potentially link to deforestation in its supply chain. However, it currently lacks a public deforestation policy and does not address this issue in its vendor code of conduct.

**Achieved:** LAPFF initiated a dialogue with TJX Companies and met with representatives for the first time to discuss the development of such a policy. The conversation began with an overview of the company’s sustainability priorities,

## COMPANY ENGAGEMENTS

focusing on climate and energy, before shifting to the topic of deforestation.

**In Progress:** This marks the commencement of ongoing discussions with TJX, a company substantially held by LAPFF. The Forum aims to continue engaging with TJX to advocate for the benefits of imposing deforestation requirements on its vendors.

### Nestlé – Regenerative Agriculture and Climate Change

**Objective:** In the context of the agri-food sector's shift towards more sustainable practices, LAPFF sought a meeting with Nestlé to assess and understand the integration of regenerative agriculture into its strategy. This includes understanding the company's specific goals, initiatives, and progress in implementing regenerative practices, as well as its contributions to climate change mitigation and biodiversity conservation.

**Achieved:** During LAPFF's meeting with Nestlé, the Forum gained insights into the strategies and initiatives involved in implementing regenerative agriculture. Discussions looked at how this would be incorporated into their broader climate strategy and covered biodiversity more widely. While the long-term efficacy of these actions is yet to be measured, the conversations indicated a strong commitment from Nestlé, although further evaluation will be required in the future to gauge the impacts of strategies.

**In Progress:** LAPFF will continue to engage with Nestlé, focusing on monitoring the implementation of their regenerative agriculture practices. LAPFF will also look more widely across the agri-food sector as others are incorporating this into their business strategies as new methods and technologies become available.

### Chipotle – Water Stewardship

**Objective:** LAPFF has been engaged with Chipotle on its approach to water stewardship since 2019. The initial engagement objective was met during 2022, with the company undertaking an



Chipotle Mexican Grill at Pineapple Commons, Stuart, Florida

ingredient level water risk assessment to identify areas of water stress within the supply chain. The risk assessment found that a significant proportion of the company's suppliers operate in areas of water stress. LAPFF now considers it imperative that the company utilise the results of this risk assessment to set measurable and time-bound targets in order to reduce negative impacts on freshwater.

**Achieved:** In October 2023, CERES published a corporate benchmark assessing the water stewardship practices of 72 companies against the six Corporate Expectations for Valuing Water, including Chipotle. Chipotle underperformed relative to the quick service restaurant (QSR) peer group. LAPFF Executive member John Anzani met with the company in December to discuss progress in adopting a more ambitious approach to its water stewardship practices.

**In Progress:** LAPFF is the lead investor for Chipotle as part of the Valuing Water Finance Initiative (VWFI) and will continue to engage with Chipotle on this basis during 2024. It is LAPFF's expectation that Chipotle leverages the work it has undertaken in mapping exposure to water stress in order to set ambitious targets, particularly given that during Q4 2023 the science-based targets network has released guidance for companies to set the relevant freshwater targets.

## HUMAN RIGHTS ENGAGEMENTS

Similar to the climate space, human rights policy and practice must align for companies to be able to implement their human rights responsibilities. Legislation requiring mandatory human rights and environmental due diligence, including the imminent Corporate Sustainability Due Diligence Directive (also known as the 'CS triple D'), makes the need for this alignment pressing. LAPFF has taken a number of measures this quarter to work toward this alignment.

LAPFF's view is that investors are still struggling to understand the link between human rights and financial materiality. LAPFF sees this link more and more clearly, particularly through its work with mining companies. LAPFF regularly undertakes various avenues of engagement on human rights, and will continue to seek in its engagements with both companies and investors to clarify this link. The goal is that human rights become an investor imperative to the extent that climate change is, not least because of the need for a just transition.

### UN Forum and Working Group on Business and Human Rights

On the policy front, LAPFF was again

## COMPANY ENGAGEMENTS

invited to present its work at the UN Forum on Business and Human Rights in Geneva on 27 November. LAPFF's video about its visit to Brazil to see communities affected by tailings dams was selected for screening out of, reportedly, a huge number of potential options. The video was well-received, with attendees stating that they would share it with colleagues, clients, and law students to drive home the on-the-ground impact that mining companies can have on people in host communities.

LAPFF also submitted a response to a UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights. The goal of this consultation is exactly to push alignment between law and practice on human rights. One of the main points LAPFF made is that corporate and commercial legal frameworks must align with international human rights law principles, for example of joint ventures, to facilitate good corporate practice.

### COMPANY ENGAGEMENTS MEETINGS

In terms of company engagements, **Glencore** and **Grupo Mexico** were companies of focus this quarter. LAPFF generally has at least an annual meeting with the Glencore Chair. This meeting was its second with Chair Kalidas Madhavpeddi. Although LAPFF had requested a meeting with CEO Gary Nagle to discuss both climate and human rights performance at Glencore, Mr. Madhavpeddi was accommodating and helpful. LAPFF asked about the company's engagement with affected communities, but Mr. Madhavpeddi did not share much on this front.

LAPFF subsequently held a seminar for investors with communities from Colombia and Peru who are affected by Glencore's Cerrejon and Antapaccay projects, respectively. It has also been in touch with IndustriALL representatives who worked with investors last year to bring a climate-related resolution to Glencore's AGM. LAPFF's view from speaking to these stakeholders is that in the coming year, Glencore is likely to be the target of a concerted union and community campaign because of its human rights and environmental practices. Therefore, LAPFF has reached out to the company for a follow up

meeting to discuss these stakeholder concerns and to push the company to build and disclose stronger stakeholder engagement mechanisms and climate practices.

### TECHNOLOGY COMPANIES AND HUMAN RIGHTS

**Objective:** Governance of new technology is well recognised as an investment risk. However, such risks have come to the fore again with significant advances in AI technologies. Alongside the significant potential benefits of AI, it has the potential to adversely impact people's employment and creates human rights risks, not least around discrimination. These risks are often greatest at companies developing and selling AI services and products. As with other human rights risks, LAPFF expects technology companies to have due diligence policies in place to prevent negative impacts.

**Achieved:** LAPFF executive member Heather Johnson met with the German tech company SAP. The company faces specific risks related to AI, including products which support HR functions. The meeting covered how the company was managing the risks of adverse human rights impacts, including discrimination. The discussion covered identification of risks and the company set out the framework and processes it has in place for preventing negative impacts. The

Sonora, Mexico: 40,000 cubic meters of copper sulfate were spilled into a dam, property of Grupo Mexico

meeting also covered how the company had responded to the German Supply Chain Due Diligence Act.

**In progress:** AI is an emerging technology with risks likely to become greater and more complicated. LAPFF will continue to engage technology companies in how these risks are being managed to ensure appropriate frameworks and safeguards are in place.

### RESPONSIBLE MINERALS – ELECTRIC VEHICLE MANUFACTURERS (FORD, RENAULT AND MERCEDES)

**Objective:** As highlighted, there is an increasing trend in international regulations to impose the responsibility for human rights due diligence on companies. These regulations highlight the electric vehicle industry's obligation to ensure ethical and sustainable practices, particularly in supply chains. This development is part of a broader global movement towards enhanced corporate accountability and transparency. Over recent years, LAPFF has consistently engaged with various electric vehicle manufacturers on this matter, advocating for improved due diligence and transparency as these regulations have evolved.

**Achieved:** LAPFF has maintained ongoing dialogues with Ford, Renault, and Mercedes, meeting with Ford and Renault for the second time, and with Mercedes for the third time on this



## COMPANY ENGAGEMENTS

issue. All three companies have shown notable progress in their human rights management processes and efforts to comply with regulations, especially in the depth of their public reporting. Despite some areas still requiring improvement, it would appear they are more actively engaging with suppliers and pursuing ethical sourcing to meet international human rights standards.

**In Progress:** LAPFF will continue to monitor and seek engagement with those companies exposed to the various human rights risks associated with electric vehicles, which become ever more evident as production is scaled up.

### COLLABORATIVE ENGAGEMENTS PRI ADVANCE

LAPFF continued its engagement with **Vale** and **Anglo American** through the PRI Advance human rights initiative, including through bringing investors in other PRI Advance groups into stakeholder engagement meetings on **Glencore**, **BHP**, and **Rio Tinto**. These initiatives are moving quite slowly, in part in LAPFF's view, because investors are generally less aware of and less attuned to human rights considerations than they are corporate governance and environmental issues. Therefore, they are still considering how best to engage companies on human rights, which tend to deal with 'soft' issues such as illegal discrimination and freedom of association rather than 'hard' issues like clear financial costs.

### LONDON MINING NETWORK AND COMMUNITIES AFFECTED BY MINING

LAPFF continues to find great value in engaging with community groups affected by mining company operations. The meeting with communities affected by **Glencore** operations in Colombia and Peru was the first in-person meeting of this kind that LAPFF had held since the Covid pandemic. Most community meetings are online because affected community members tend to be in developing countries, and everyone has limited travel budgets (not least for climate reasons). However, LAPFF



workers stock the shelves at a Home Depot store

coordinated with London Mining Network to hold an in-person seminar which six investors attended. The Colombian and Peruvian community members shared the severe environmental impacts **Cerrejon** was having on its rivers and soil, which is leading to significant health concerns in both countries. A LAPFF representative also met with communities with continued concern about **BHP's** practices in Brazil.

LAPFF held online meetings with communities from Brazil and Mexico. LAPFF continues to engage with the community members with whom it visited in Brazil, particularly in relation to the reparations at **Samarco**-affected communities. Although over 100 houses have reportedly been built in one of the resettlements – **Bento Rodrigues** - these community members continue to be concerned that the quality of the houses is poor, and they report that they don't know who to contact at **Vale** or **BHP** to complain. Part of the problem is that the **Renova Foundation** CEO with whom LAPFF met in Brazil has been sacked but not replaced successfully. His immediate successor lasted two months, according to the community members. LAPFF is waiting to hear whether a permanent, successful CEO has now been appointed or whether the search continues.

In relation to Mexico, LAPFF was assured earlier in the year that **Grupo Mexico** had met its reparations obligations in relation to its 2014 tailings

pond leak in Sonora, Mexico. However, LAPFF was alerted by a community representative and a news article about a Mexican government lawsuit to reinstate the reparation fund due to inadequate reparations payments. LAPFF has tried three times this quarter to obtain a meeting with the company but has been met with silence. Meanwhile, LAPFF met with the community representative at the UN Forum on Business and Human Rights at the end of November to receive a further update on the case. It appears that LAPFF will now need to investigate options to escalate its engagement with **Grupo Mexico**, but it will need to do so in consideration of safety concerns for the affected communities.

**In Progress:** LAPFF's view is that investors are still struggling to understand the link between human rights and financial materiality. LAPFF sees this link more and more clearly, particularly through its work with mining companies. Therefore, LAPFF will continue to seek in its engagements with both companies and investors to clarify this link so that human rights become an investor imperative to the extent that climate change is, not least because of the need for a just transition.

### INVESTOR ALLIANCE FOR HUMAN RIGHTS

LAPFF continued to work closely with the

## COLLABORATIVE ENGAGEMENTS

Investor Alliance for Human Rights, both in relation to the Uyghur Group and in relation to conflict-affected and high-risk areas (CAHRA).

### Investor Alliance for Human Rights – The Home Depot Inc

**Objective:** As a part of the Investor Alliance for Human Rights' Uyghur Working Group, LAPFF led on an engagement with The Home Depot, which was implicated in allegations of Uyghur forced labour in its luxury vinyl tile (LVT) flooring supply chains, with PVC derived from Xinjiang. LAPFF sought to understand how Home Depot responded to these allegations, and how the company has undertaken work to eliminate forced labour risks and comply with human rights standards.

**Achieved:** LAPFF, alongside other investors, met with Home Depot for a second time following reports in August that shipments of LVT from Asia were being blocked by US Customs, including those destined for Home Depot. During the call, LAPFF sought answers on what the company was doing to ensure that its company supply chain was free of forced labour, potential implications of bifurcation of supply chains, and what new methods Home Depot was implementing to have sufficient audit procedures in place.

**In Progress:** LAPFF will continue to monitor the company's approach to global human rights due diligence and seek further engagement in due course for updates on the issue, with a focus on the company's implementation of enhanced audit procedures.

### CAHRA PILOT PROJECT

LAPFF was invited to join IAHR's CAHRA pilot project. The project has been initiated in part because of the escalation of conflicts globally, including in Ukraine, Nagorno Karabakh, and Israel and Gaza, which reignited this quarter. LAPFF had already been attending a number of IAHR webinars on this topic to understand better how to engage companies on CAHRA issues, so the opportunity to participate in this pilot is welcome, especially given LAPFF's engagements with companies operating in Russia,

Myanmar, and the Occupied Palestinian Territories.

### VOTING ALERTS

LAPFF also issued a voting alert for BHP expressing concern that the company's rhetoric and practices on climate are not aligned and expressing concerns about the corporate culture in respect of human rights. BHP is currently the subject of potentially costly litigation in Brazil, the UK, and Australia in relation to its failings related to the Samarco tailings dam collapse alone. LAPFF continues to have serious concerns that the company is not taking appropriate accountability and responsibility for its human rights and environmental practices, and that this omission could lead to large financial losses for both the company and investors.

## JUST TRANSITION ENGAGEMENTS

**LAPFF's aim is to move away from siloed ESG engagements in recognition of the overlap between these three areas in pursuing a just transition. There are currently two dedicated work streams covering a just transition specifically, although the climate and human rights work by definition addresses just transition to a degree.**

### RIO TINTO SHAREHOLDER RESOLUTION

Within the quarter LAPFF explored the option of filing a just transition shareholder resolution at Rio Tinto's 2024 AGM requesting the company undertake independent water impact assessments at its mine sites. The proposed resolution sought to ensure that the company adequately assesses its impacts on water resources so that it can properly identify operational, reputational, legal, and consequently financial risks to the business and investors.

In the end, LAPFF did not file the resolution. LAPFF is currently in dialogue with Rio Tinto, and Rio Tinto has issued a water impact assessment in relation to its QMM operation in Madagascar. Although the company is not fully meeting the

resolution's request, LAPFF is encouraged that the company is willing to discuss how to move forward on the request and continues to be hopeful that the company will meet it. LAPFF is pursuing further dialogue with the company on this issue and will take a view after the 2024 AGM whether the resolution filing process needs to be resumed.

### EQUINOR

As part of its involvement with World Benchmarking Alliance just transition initiative, LAPFF participated in a collaborative call with Norwegian energy company, Equinor. Equinor has a policy commitment to a just transition and the engagement provided a useful opportunity to discuss how the policy was being implemented. The meeting covered the company's approach to assessing and mitigating negative social impacts of the energy transition, governance of just transition issues, just transition planning and metrics and targets.

**In Progress:** As part of LAPFF's involvement in the WBA initiative, it will continue oil and gas companies on just transition plans. LAPFF will continue to engage mining companies on undertaking independent water impact assessments.

## BOARD DIVERSITY ENGAGEMENTS

**Objective:** It is well-documented at this point, both in academic literature and in the corporate governance world, that board diversity improves corporate performance. Diversity covers a range of areas, including gender, cultural, and economic (for example workers on boards). Consequently, LAPFF engages companies on board diversity and composition as a matter of course to work toward improved financial returns across member portfolios.

**Achieved:** LAPFF is a long-standing member of the 30% Club Investor Group, which began with a focus on gender diversity and has now expanded its work to include racial diversity on boards. Over time, this group has also expanded from focusing on UK companies to engaging

## COLLABORATIVE ENGAGEMENTS

companies in other countries. The latest round of engagements has been with a range of Asian companies, including KKR & Co and Shinhan Financial Group.

LAPFF also questioned Glencore on its board composition this quarter. The company has a small board compared to its peers in the mining sector, and LAPFF wondered if its small size allowed for enough diversity of views. Although three of the eight board members are female, LAPFF is also looking, for example, for board members with backgrounds in climate change and human rights who are sufficiently independent to challenge the board on its climate, human rights, and internal controls systems, especially given the corruption challenges the company is continuing to face.

**In Progress:** Board diversity is a continuing workstream for LAPFF, as it pushes companies to move from merely appointing certain numbers of diverse board members to truly considering and integrating their views into company strategy and practice. This objective relies on cultural change which takes a long time to achieve so is something at which LAPFF chips away each quarter on different fronts. LAPFF has also secured a meeting with KKR & Co for Q1 or 2024 to discuss diversity targets.

## GOVERNANCE ENGAGEMENT

### Barclays

**Objective:** In October, former Barclays executive Jes Staley was banned by the FCA from holding senior positions in financial services and charged with a £1.8m fine for allegedly misleading the watchdog about his past relationship with convicted sex offender Jeffrey Epstein. In turn, LAPFF felt it imperative to engage with Barclays to discuss learnings from this tumultuous episode and sought to see actions the bank had taken to strengthen corporate governance at both board and management level.

**Achieved:** LAPFF met with the Chair of Barclays, Nigel Higgins, at the end of October. The Chair openly discussed the event and actions the bank had taken, including freezing deferred bonuses

to Stanley at the time of investigation. The company stated it has strengthened their board recruitment practices and remained vigilant. However, LAPFF will be monitoring the governance going forward. More widely, LAPFF requested an update of Barclays's climate policy and have arranged to have a specific meeting on this topic separately.

**In Progress:** Following the recent board changes earlier this year at Barclays, including the appointment of new executives, LAPFF will continue to watch the corporate governance nominations and succession plans of the company board. LAPFF maintains a cordial dialogue with the chair and aims to continue engaging on this topic.

## PUBLIC HEALTH ENGAGEMENT

### FAIRR Initiative's Restaurant Antibiotics Engagement – Restaurant Brands International (RBI)

**Objective:** FAIRR's Restaurant Antibiotics engagement focuses on reducing the use of antibiotics in protein supply chains. This initiative involves companies within the fast-food and casual dining sector, with the aim of mitigating the risks associated with antibiotic resistance due to the overuse of antibiotics in livestock. The objective is to safeguard public health.

**Achieved:** LAPFF joined a call with FAIRR and other investors with Restaurant Brands International (RBI). As a first call with the company, investors shared key asks of the engagement and pushed for enhanced transparency on the company's efforts to reduce antibiotics in its supply chain.

**In Progress:** LAPFF signed onto a series of letters sent by FAIRR and will seek to join meetings as appropriate when they become available. LAPFF is also hoping to continue supporting engagement with RBI as the dialogue develops.

## Taskforce on Social Factors

LAPFF's chair is a member of the Taskforce on Social Factors, which was established by the DWP with cross-departmental and multi-regulator involvement. The taskforce was established to outline how trustees could and should address social risks and opportunities. Specifically, the group has looked at the materiality of such issues, data on social factors, and the actions pensions funds can take. During the quarter, the group's initial findings were published for consultation. Within the report a series of recommendations were set out to pension trustees, the investment industry, regulators, government, civil society and businesses.

## MEDIA COVERAGE

ESG Investor: [ESG Overload – ESG Investor](#)

Room 151: [LAPFF alongside other investors call for climate vote at high-emitting companies – Room 151](#)

IPE: [Investors coalition creates platform to strengthen human rights stewardship | News | IPE](#)

The Point: [Global perspective: is ESG paying lip service to human rights? | The Point ESG News](#)

Environmental Finance: [CCLA, LAPFF call for climate votes at 'high-emitting' sectors](#)

Pensions & Investments: [U.K. investors turn up the heat on boards for climate transition plans](#)

Sustainable Times: [Investors Managing £1.8 Trillion Rally for Climate Strategy Votes at Upcoming FTSE 350 AGMs](#)

IPE: [Investor group calls for climate vote at high-emitting companies](#)

Net zero investor: [£1.8trn investors call for climate vote at high-emitting companies](#)

Funds- Europe.com: [Investors seek climate votes at high-risk firms](#)

Pensions Age Magazine: [Investor group calls for climate vote at high carbon emitting FTSE 350 firms](#)

TheMJ.co.uk: [Council pension funds call for climate vote](#)

LocalGov.co.uk: [Council pension funds call for climate vote](#)

Investment Week: [Investors overseeing £1.8tn in assets call for AGM votes on climate transition plans](#)

# COMPANY PROGRESS REPORT

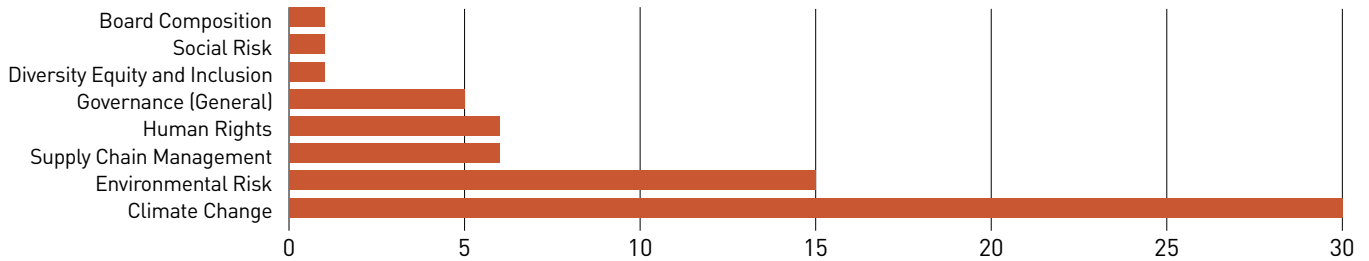
44 companies were engaged over the quarter.

Company/Index	Activity	Topic	Outcome
Company/Index	Activity	Topic	Outcome
AIA GROUP LTD	Meeting	Environmental Risk	Dialogue
ASTON MARTIN LAGONDA GLOBAL HOLDINGS PLC	Received Correspondence	Climate Change	Dialogue
AVIVA PLC	Meeting	Climate Change	Dialogue
AXA	Meeting	Climate Change	Moderate Improvement
BAE SYSTEMS PLC	Received Correspondence	Climate Change	Dialogue
BAKKAVOR GROUP PLC	Received Correspondence	Climate Change	Dialogue
BARCLAYS BANK PLC	Meeting	Governance (General)	Dialogue
BARCLAYS PLC	Received Correspondence	Climate Change	Dialogue
BP PLC	Meeting	Governance (General)	Dialogue
CENTAMIN PLC	Received Correspondence	Climate Change	Dialogue
CHIPOTLE MEXICAN GRILL INC	Meeting	Environmental Risk	Change in Process
CRH PLC	Received Correspondence	Climate Change	Dialogue
EASYJET PLC	Received Correspondence	Climate Change	Dialogue
ENERGEAN PLC	Received Correspondence	Climate Change	Dialogue
EXXON MOBIL CORPORATION	Sent Correspondence	Social Risk	Awaiting Response
FORD MOTOR COMPANY	Meeting	Supply Chain Management	Dialogue
FRESNILLO PLC	Received Correspondence	Climate Change	Dialogue
GLENCORE PLC	Meeting	Board Composition	Dialogue
HARBOUR ENERGY PLC	Received Correspondence	Climate Change	Dialogue
HSBC HOLDINGS PLC	Received Correspondence	Climate Change	Dialogue
INTERNATIONAL DISTRIBUTIONS SERVICES PLC	Sent Correspondence	Governance (General)	Awaiting Response
JOHN WOOD GROUP PLC	Received Correspondence	Climate Change	Dialogue
KKR & CO INC	Received Correspondence	Diversity Equity and Inclusion	Small Improvement
LEGAL & GENERAL GROUP PLC	Meeting	Environmental Risk	Dialogue
LLOYDS BANKING GROUP PLC	Meeting	Environmental Risk	Small Improvement
MERCEDES-BENZ GROUP AG	Meeting	Human Rights	Small Improvement
NATIONAL GRID GAS PLC	Meeting	Climate Change	Dialogue
NATWEST GROUP PLC	Received Correspondence	Climate Change	Dialogue
NESTLE SA	Meeting	Environmental Risk	Change in Process
PERSIMMON PLC	Meeting	Climate Change	Dialogue
PING AN INSURANCE GROUP	Meeting	Climate Change	Change in Process
PRUDENTIAL PLC	Meeting	Climate Change	Change in Process
RENAULT SA	Meeting	Supply Chain Management	Moderate Improvement
RESTAURANT BRANDS INTERNATIONAL INC	Meeting	Supply Chain Management	Dialogue
RIO TINTO PLC	Meeting	Environmental Risk	No Improvement
ROLLS-ROYCE HOLDINGS PLC	Received Correspondence	Climate Change	Dialogue
SANOFI	Received Correspondence	Environmental Risk	Substantial Improvement
SAP SE	Meeting	Human Rights	Dialogue
SHELL PLC	Received Correspondence	Climate Change	Dialogue
STANDARD CHARTERED PLC	Received Correspondence	Climate Change	Dialogue
THE HOME DEPOT INC	Meeting	Supply Chain Management	Moderate Improvement
THE TJX COMPANIES INC.	Meeting	Environmental Risk	Small Improvement
TI FLUID SYSTEMS PLC	Received Correspondence	Climate Change	Dialogue
VALE SA	Meeting	Human Rights	Dialogue

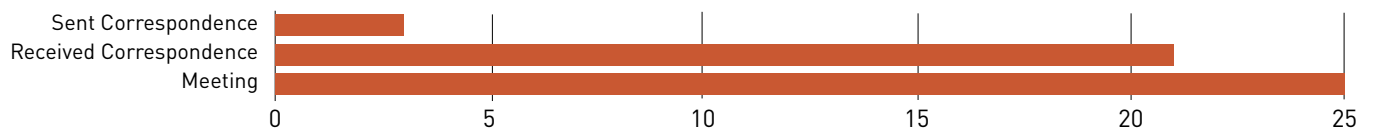


# ENGAGEMENT DATA

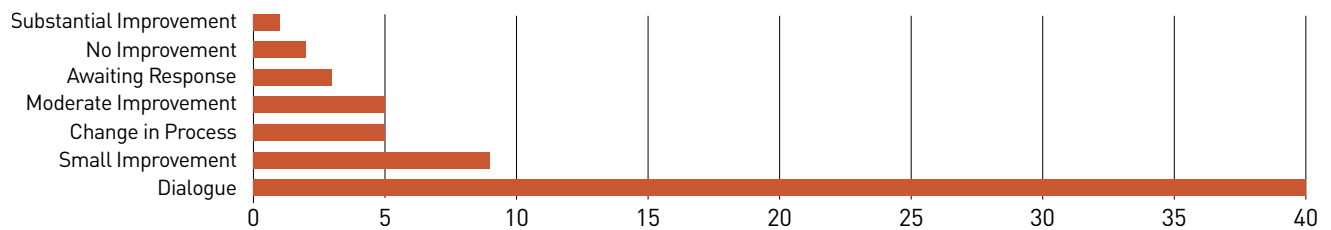
## ENGAGEMENT TOPICS



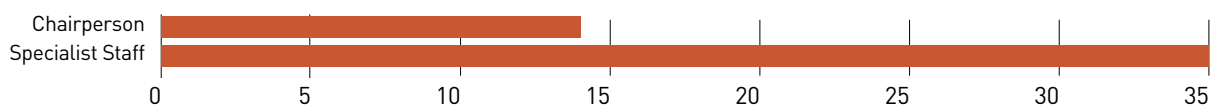
## ACTIVITY



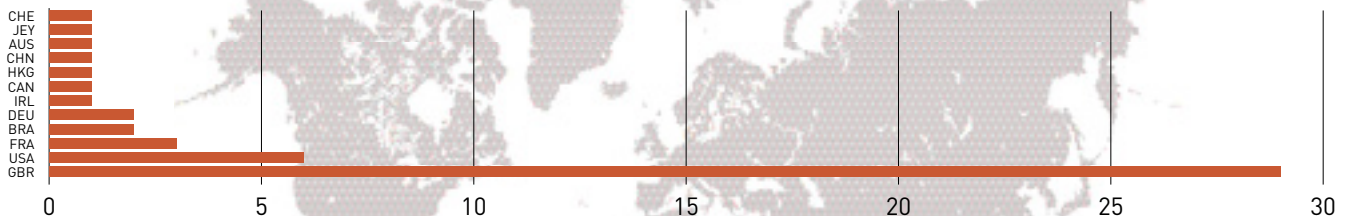
## MEETING ENGAGEMENT OUTCOMES



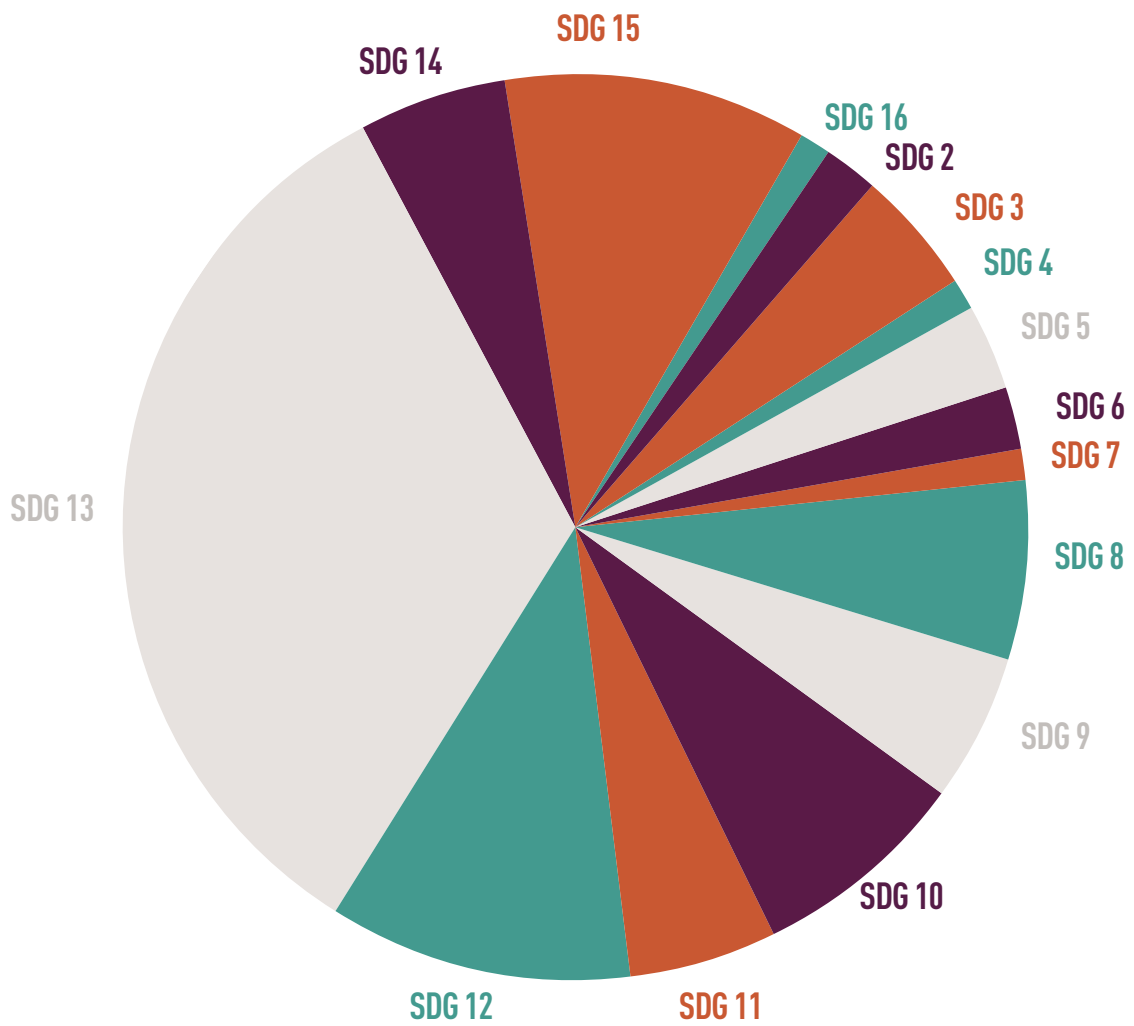
## POSITION ENGAGED



## COMPANY DOMICILES



# ENGAGEMENT DATA



## LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	3
SDG 6: Clean Water and Sanitation	2
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	6
SDG 9: Industry, Innovation, and Infrastructure	5
SDG 10: Reduced Inequalities	7
SDG 11: Sustainable Cities and Communities	5
SDG 12: Responsible Production and Consumption	10
SDG 13: Climate Action	31
SDG 14: Life Below Water	5
SDG 15: Life on Land	10
SDG 16: Peace, Justice, and Strong Institutions	1
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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Avon Pension Fund	Enfield Pension Fund	London Pension Fund Authority	Swansea Pension Fund
Barking and Dagenham Pension Fund	Environment Agency Pension Fund	Lothian Pension Fund	Teesside Pension Fund
Barnet Pension Fund	Essex Pension Fund	Merseyside Pension Fund	Tower Hamlets Pension Fund
Bedfordshire Pension Fund	Falkirk Pension Fund	Merton Pension Fund	Tyne and Wear Pension Fund
Berkshire Pension Fund	Gloucestershire Pension Fund	Newham Pension Fund	Waltham Forest Pension Fund
Bexley (London Borough of)	Greater Gwent Pension Fund	Norfolk Pension Fund	Wandsworth Borough Council Pension Fund
Cambridgeshire Pension Fund	Greater Manchester Pension Fund	North East Scotland Pension Fund	Warwickshire Pension Fund
Camden Pension Fund	Greenwich Pension Fund	North Yorkshire Pension Fund	West Midlands Pension Fund
Cardiff & Glamorgan Pension Fund	Gwynedd Pension Fund	Northamptonshire Pension Fund	West Yorkshire Pension Fund
Cheshire Pension Fund	Hackney Pension Fund	Nottinghamshire Pension Fund	Westminster Pension Fund
City of London Corporation Pension Fund	Hammersmith and Fulham Pension Fund	Oxfordshire Pension Fund	Wiltshire Pension Fund
Clywd Pension Fund (Flintshire CC)	Haringey Pension Fund	Powys Pension Fund	Worcestershire Pension Fund
Cornwall Pension Fund	Harrow Pension Fund	Redbridge Pension Fund	
Croydon Pension Fund	Havering Pension Fund	Rhondda Cynon Taf Pension Fund	<b>Pool Company Members</b>
Cumbria Pension Fund	Hertfordshire Pension Fund	Shropshire Pension Fund	ACCESS Pool
Derbyshire Pension Fund	Hounslow Pension Fund	Somerset Pension Fund	Border to Coast Pensions Partnership
Devon Pension Fund	Islington Pension Fund	South Yorkshire Pension Authority	LGPS Central
Dorset Pension Fund	Kingston upon Thames Pension Fund	Southwark Pension Fund	Local Pensions Partnership
Durham Pension Fund	Lambeth Pension Fund	Staffordshire Pension Fund	London CIV
Dyfed Pension Fund	Lancashire County Pension Fund	Strathclyde Pension Fund	Northern LGPS
Ealing Pension Fund	Leicestershire Pension Fund	Suffolk Pension Fund	Wales Pension Partnership
East Riding Pension Fund	Lewisham Pension Fund	Surrey Pension Fund	
East Sussex Pension Fund	Lincolnshire Pension Fund	Sutton Pension Fund	

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## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2023-24

#### **PENSION FUND COMMITTEE**

**20<sup>TH</sup> MARCH 2024**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR -  
FINANCE, DIGITAL AND FRONTLINE  
SERVICES**

<b>AGENDA ITEM NO. 6</b>
<p><b>PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW</b></p>

**Author – Barrie Davies, Deputy Chief Executive and Group Director –  
Finance, Digital and Frontline Services (01443) 424026**

#### **1.0 PURPOSE OF REPORT**

1.1 To provide the Committee with details of the arrangements in place to manage risk within the Pension Fund.

#### **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee:

2.1.1 Note the arrangements in place for the management of risk within the Fund; and

2.1.2 Review the Risk Register (Appendix 1) and consider whether they wish to receive further detail on any issues.

#### **3.0 BACKGROUND**

3.1 The terms of reference of the Pension Fund Committee sets out its responsibilities with regard to risk management, namely:

- *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.*

- 3.2 The Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services (in their capacity as S151 officer) supported by the Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day-to-day operational matters, which includes ensuring that robust risk management arrangements are in place.

#### **4.0 RISK MANAGEMENT**

- 4.1 With regard to Risk Management, the Fund maintains a Risk Register which is reviewed and updated, as necessary and appropriate, on a quarterly basis.
- 4.2 The Risk Register is reviewed in detail and operationally by the Pension Fund Working Group, where recommended updates are made to reflect changes in risks. This is then presented to the quarterly meetings of the Investment and Administration Advisory Panel for further review, challenge and agreement.
- 4.3 Following the agreement of the updated register, it is published on the Fund Website.
- 4.4 The Risk Register is also reviewed by the Pension Board, as part of their role in supporting the Fund's overall governance arrangements.
- 4.5 The Risk Register, dated March 2024, is attached as Appendix 1 for consideration by the Committee.

#### **5.0 CONCLUSION**

- 5.1 This report sets out, for the Committee, the arrangements in place for the management of risk by the Pension Fund.

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**Summary of Pension Fund Risks**

**Introduction**

The purpose of this document is to assess the risk associated with the RCT Pension Fund and to outline the control measures in place.

**Key to scoring**

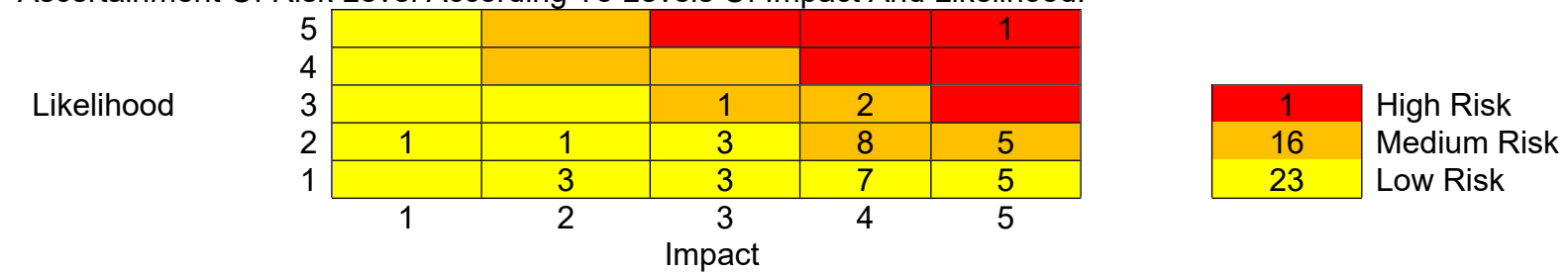
Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months
Likely	3	50% likely to happen or has happened once or twice in the last 24 months
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years

Impact Assessment Matrix:

Risk	Score
Major	5
High	4
Moderate	3
Minor	2
Trivial	1

Ascertainment Of Risk Level According To Levels Of Impact And Likelihood:



**Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term**

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10	MR	<ul style="list-style-type: none"> <li>Monitoring of funding position, reporting on the funding levels produced by the actuaries.</li> <li>Monitoring of the adopted asset / liability model.</li> <li>Monitoring the remedies of the McCloud case and ensuring appropriate provision is made against the Fund's liabilities.</li> </ul>	
	Sub-optimal asset allocation throughout the portfolio.	4	2	8	MR	<ul style="list-style-type: none"> <li>The investment strategy is reviewed and adopted by the Pension Fund Committee.</li> <li>Regular review of the asset allocation strategy by the Committee (with advice from the Advisory Panel), covering both the fund strategy and the asset allocation.</li> <li>Post 2022 valuation review.</li> </ul>	
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	3	12	MR	<ul style="list-style-type: none"> <li>Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling.</li> <li>Adhere to triennial valuations.</li> <li>Monitor performance against assumptions, consider Interim Valuations where necessary.</li> <li>Monthly monitoring of Pension Fund investment valuation given the uncertainty in markets due to economic volatility.</li> <li>Receive regular Actuarial Funding updates.</li> </ul>	
	Increases in Employer contributions.	4	2	8	MR	<ul style="list-style-type: none"> <li>Participate in LGPS Scheme design consultation.</li> <li>Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing.</li> <li>Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties.</li> </ul>	
	Potential for 'Cashflow Negativity'	4	2	8	MR	<ul style="list-style-type: none"> <li>Regularly monitor cashflow impact position as contributions reduce.</li> <li>Ensure sufficient income generation/liquid assets are available.</li> <li>Regularly review Asset Strategy and adjust as necessary.</li> </ul>	



Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	4	2	8	MR	<ul style="list-style-type: none"> <li>Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity.</li> <li>Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates.</li> </ul>	
Investments	Financial Market suppressed by economic climate, national / global austerity measures and Geo-political instability.	5	5	25	HR	<ul style="list-style-type: none"> <li>Long-term funding plan with a diverse range of asset classes and Fund Manager styles.</li> <li>Panel clearly understand the impact of market conditions on asset classes and fund manager performance.</li> <li>Panel monitor and scrutinise performance, market conditions and forecasts.</li> <li>Continue to monitor the potential implications of Brexit.</li> <li>Material economic and financial risk of infectious diseases.</li> </ul>	
	Failure to adequately take into account climate change, climate risk and ESG factors resulting in the financial loss.	3	2	6	LR	<ul style="list-style-type: none"> <li>The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund web-site.</li> <li>Appointment of a voting engagement provider to monitor fund managers voting and engagement held outside the WPP.</li> <li>Appointment of a proxy voting engagement provider by the WPP, who engages with managers and companies on climate change, climate risk and ESG factors.</li> <li>Panel engages and challenges fund managers on how they account for ESG factors.</li> <li>Participation in training and development when available.</li> </ul>	
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	2	8	MR	<ul style="list-style-type: none"> <li>An agreement is in place between the custodian and Pension Fund.</li> <li>Monthly reconciliations are carried out to check external custodian records.</li> <li>Funds held in the name of the Pension Fund or the WPP, not the Fund Manager nor the Custodian.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Investment returns fail to meet agreed targets.	4	2	8	MR	<ul style="list-style-type: none"> <li>Regular monitoring of investment returns.</li> <li>Advisory Panel review and challenge of fund manager performance against their benchmarks and targets.</li> <li>Use advisors to support the monitoring and challenge of fund managers.</li> <li>Where performance issues arise, put more targeted review and challenge arrangements in place.</li> <li>Monitor individual fund managers performance and address where necessary by closer monitoring and scrutiny.</li> </ul>	
	Adverse impact of the transition of the Pension Fund's assets into the Wales Pension Partnership pooling	4	2	8	MR	<ul style="list-style-type: none"> <li>Effective governance arrangements of the Joint Governance Committee and Officer Working Group.</li> <li>Key role undertaken by the Joint Governance Committee at transition process.</li> <li>Ensure operator establishes a tax efficient UK collective investment vehicle.</li> <li>Ensure the appropriate 'wrappers' for the investments in illiquid assets.</li> </ul>	
	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	3	2	6	LR	<ul style="list-style-type: none"> <li>Investment assets and transactions are monitored in-house.</li> <li>Investment management fees are monitored on a quarterly basis.</li> <li>Investment malpractices are reported to the FCA.</li> </ul>	
	Pension fund investments may not be accurately valued.	4	1	4	LR	<ul style="list-style-type: none"> <li>Investments are valued using correct prices obtained by fund managers from independent third party agencies.</li> </ul>	
	Fund managers may not have the appropriate control framework in place to protect pension fund assets.	4	1	4	LR	<ul style="list-style-type: none"> <li>Agreements are in place between fund managers and the Pension Fund.</li> <li>Portfolios are managed in accordance with the investment objectives.</li> <li>Monthly reconciliations are carried out to check portfolios against administering authority records.</li> <li>Third parties provide the Pension Fund with an annual internal control report, which provides assurance.</li> <li>FCA regulated.</li> <li>Fund managers have robust arrangements in place to manage mandates.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Fund manager mandate restrictions and benchmarks constrain returns.	3	1	3	LR	<ul style="list-style-type: none"> <li>Obtain advice from advisors.</li> <li>Obtain advice from performance measurement company.</li> </ul>	
Governance	On-going pooling arrangements as required by central government.	5	2	10	MR	<ul style="list-style-type: none"> <li>Joint Governance Committee and Officer Working Group has been formally constituted.</li> <li>Establishment of sub groups of the WPP for specialisation.</li> <li>Wales Pension Partnership's CIV proposal approved by FCA on 24<sup>th</sup> July 2018, further submissions approved to allow for the development of additional sub funds.</li> <li>External 'Operator' appointed by WPP.</li> <li>Participation on consultation papers.</li> <li>Engagement with local pension boards.</li> <li>Creation of sub funds continues to be effectively progressed.</li> <li>Pension Board Engagement days held to update Pension Board Chairs and provide feedback.</li> <li>Development of appropriate business plans, policies and procedures.</li> <li>Scheme Member Representative co-opted as a non voting member of the JGC meetings, feeding back to Pension Board Chairs.</li> <li>Assets held outside the Pool are for the Fund's cashflow requirements and illiquid asset transition opportunities.</li> </ul>	Amended to reflect the Chancellor's target that all assets should be pooled by March 2025
	Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	5	1	5	LR	<ul style="list-style-type: none"> <li>Fund Governance Compliance Statement is reviewed and published annually.</li> <li>The Fund's 'Pension Board' became effective from 1st April 2015.</li> <li>The Fund has a Breaches policy.</li> <li>Review the Investment Strategy Statement annually in accordance with MHCLG (now Department for Levelling Up, Housing and Communities) guidance.</li> <li>Benchmark against regulator on code of practice.</li> <li>Submit Annual Pension Scheme Regulator Return on time.</li> <li>Good governance review currently being considered by Department for Levelling Up, Housing and Communities.</li> <li>Participation on consultation papers.</li> <li>Gap analysis being undertaken following receipt of The Pensions Regulator General Code</li> </ul>	The Pensions Regulator General Code laid in Parliament 10th January 2024 and expected to come into force 27 <sup>th</sup> March 2024.
	Members, officers and advisors do not have the right knowledge or skills.	4	1	4	LR	<ul style="list-style-type: none"> <li>The Pension Fund has adopted the CIPFA knowledge and skills framework.</li> <li>The Pension Fund Skills and Knowledge framework is reviewed at each Investment and Administration Advisory Panel, Pension Committee and Pension Board.</li> <li>The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Loss of reputation.	2	2	4	LR	<ul style="list-style-type: none"> <li>The Fund holds Annual General Meetings, Communication Forums, seminars and training both directly and through the WPP.</li> <li>The Fund has a dynamic website responding to stakeholder requirements.</li> <li>Knowledgeable and professional staff.</li> <li>Meetings are held regularly with the Fund's employer authorities.</li> <li>Benefit statements are sent out annually to members by 31<sup>st</sup> August.</li> <li>Monitoring the policy on voting decisions and the impact should UK shareholder lose voting rights in EU companies.</li> <li>Annual reports are produced by 1<sup>st</sup> December.</li> <li>The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund web-site - <a href="https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/Investments.aspx">https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/Investments.aspx</a></li> <li>The Pension Fund's passive equities are invested in a low carbon product.</li> <li>External Audit and Governance and Audit Committee.</li> </ul>	
	Conflicts of Interest arise.	3	1	3	LR	<ul style="list-style-type: none"> <li>Declarations to be made by Advisory Panel Members, Pension Board Members and Pension Committee Members.</li> <li>Director of Legal &amp; Democratic Services maintains a Register of Interests.</li> <li>Fund Governance Policy.</li> <li>Employer / Member Engagement – Communication Policy.</li> <li>Transparency – published audited accounts, Valuation, Annual Report, etc.</li> </ul>	
	Failure to comply with the Myners Statement of Investment Principles.	2	1	2	LR	<ul style="list-style-type: none"> <li>The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.</li> </ul>	
Operational	Loss of key staff / expertise.	4	3	12	MR	<ul style="list-style-type: none"> <li>Job descriptions and person specifications.</li> <li>Dynamic training program.</li> <li>Workforce planning arrangements in place.</li> <li>All staff are currently working on a hybrid basis in line with the needs of the service.</li> <li>Training and retaining of specialists in a challenging recruitment market.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Compliance with data quality regulation and best practice.	5	2	10	MR	<ul style="list-style-type: none"> <li>Data Improvement Plan in place.</li> <li>Good relationships / communication with Employers.</li> <li>Ensure timely notification by Fund Employers of new starters, changes and leavers.</li> <li>Issue annual benefit statements to scheme members for review.</li> <li>Breaches policy in place.</li> <li>Mandatory rollout of I-connect, monthly data submissions.</li> <li>Monthly Data Screening.</li> <li>Common and Scheme Specific Data reviews / scoring.</li> <li>Scheme Member Self Serve validation available.</li> <li>Fund participation in the National 'Tell us Once Service'.</li> <li>TPR Annual Scheme Return and data score.</li> <li>Membership data is hosted in the UK.</li> </ul>	
	Inability to implement the 'McCloud' remedies within expected timelines	5	2	10	MR	<ul style="list-style-type: none"> <li>Project Team established.</li> <li>Investment in team resources.</li> <li>Data retrospection solutions discussed and agreed through the Fund's Employer Comms Forum.</li> <li>Apply and monitor the impact of the remedy regulations (as changed from 01<sup>st</sup> October 2023)</li> <li>Early engagement with Pensions Software Supplier.</li> <li>Sharing best practice through the various LGPS forums.</li> </ul>	
	Inability to comply with Pension Dashboard Staging Dates and Duties	4	1	4	LR	<ul style="list-style-type: none"> <li>Connection deadline for public service schemes is to be agreed and will be prior to October 2026 – Government announced in March 2023 that it intends to legislate to amend the staging timetable.</li> <li>Updates from industry bodies regarding staging deadlines and requirements reviewed.</li> <li>Existing software provider, Heywood, to be used as Integrated Service Provider (ISP).</li> <li>Data cleansing exercises ahead of staging date.</li> <li>Resource to be allocated and processes to be implemented to deal with member queries arising from use of dashboards.</li> <li>Regular progress updates are provided to the Fund's governance groups.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Cyber security breach of the Fund's pension system and personal data contained.	5	2	10	MR	<ul style="list-style-type: none"> <li>• Third Party supplier – cyber reliance controls.</li> <li>• Controls and environment maintained and regularly reviewed in line with Council's standards. Internal controls include, appropriate password and access conventions, firewalls, virus and malware protection, data encryption requirements.</li> <li>• Annual control review or more frequent depending on environment / service changes.</li> <li>• Designated Information Management Officer, with Security Incident reporting protocol.</li> <li>• Cyber Essential Accreditation.</li> <li>• Public Service Network (PSN) Accreditation.</li> <li>• Information &amp; Security Board.</li> <li>• All Wales Security Forum (WARP).</li> <li>• Cyber Security Principles for Pension Schemes' (Self Assessment).</li> <li>• Cyber Security Risk Assessments undertaken.</li> </ul>	
	Confidential / commercially sensitive data is leaked, stolen or misplaced	5	1	5	LR	<ul style="list-style-type: none"> <li>• The Pension Fund will clearly mark any confidential / commercially sensitive data that it shares.</li> </ul>	
	Failure to meet Service Standards.	3	3	9	MR	<ul style="list-style-type: none"> <li>• Pension Fund Administration Strategy.</li> <li>• Workforce planning, realign to meet one off demands, skills and training review.</li> <li>• Appropriate systems and technology.</li> <li>• Regular monitoring by Fund governance groups.</li> </ul>	
	Failure to implement scheme changes.	4	2	8	MR	<ul style="list-style-type: none"> <li>• Regular updates are received, reviewed and acted upon in a timely manner.</li> <li>• Ensure software is adapted appropriately.</li> <li>• Membership of relevant pensions professional bodies.</li> <li>• Implementation of McCloud remedies</li> </ul>	
	Employer ceases to participate in Fund / Admitted bodies go into administration.	3	2	6	LR	<ul style="list-style-type: none"> <li>• Employer covenants or bonds.</li> <li>• Regular review of covenants.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28 <sup>th</sup> May 2018).	5	1	5	LR	<ul style="list-style-type: none"> <li>Administering Authority Information Management Security policies.</li> <li>All Scheme Member correspondence securely imaged.</li> <li>Appropriate Data Protection Registration.</li> <li>Third Party Data Sharing agreements in place.</li> <li>Fund Privacy Notice published.</li> <li>Employer Memorandum of Understanding implemented.</li> <li>Mandatory training undertaken by all staff.</li> <li>Awareness sessions held with the Fund's Governance groups.</li> </ul>	
	Failure to pay pensioners on time.	5	1	5	LR	<ul style="list-style-type: none"> <li>Payroll Timetables maintained.</li> <li>Business Continuity Plan.</li> </ul>	
	Delivery of the Triennial Valuations	5	1	5	LR	<ul style="list-style-type: none"> <li>Data Cleansing exercise.</li> <li>Actuarial 'Employer Covenant' reviews.</li> <li>Employer Engagement : Year End Data Schedules Issued / Timetable / Support.</li> <li>Project Terms of Reference / Timetable agreed with Actuary.</li> <li>Assumptions to be agreed with Actuary.</li> <li>Data to be submitted as per agreed timeline.</li> </ul>	Triennial valuation for 2022 completed.
	Qualification of accounts.	4	1	4	LR	<ul style="list-style-type: none"> <li>Financial information reconciled on a timely basis.</li> <li>Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice.</li> <li>Regular dialogue with external auditors.</li> </ul>	
	Operational disaster (fire / flood, etc)	4	1	4	LR	<ul style="list-style-type: none"> <li>Business continuity procedures are in place and tested.</li> </ul>	
	Compliance with Fund 'Dispute' Regulation.	3	1	3	LR	<ul style="list-style-type: none"> <li>Internal Dispute Procedure in place.</li> </ul>	
	Failure by employers to pay contributions into the Fund on time and in accordance with the 2022 'Rates and Adjustments Certificate'.	2	1	2	LR	<ul style="list-style-type: none"> <li>Monitoring of monthly receipts to remittances, with reference to the 2022 'Rates and Adjustment Certificate'.</li> <li>Report any material breaches to Regulator in accordance with the Fund's 'Breaches Policy'.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating March 2024 qtr
	Fraud.	2	1	2	LR	<ul style="list-style-type: none"> <li>• Strict internal control mechanisms, segregation of duties, etc.</li> <li>• Internal and External Audit Review.</li> <li>• National Fraud Inspectorate participation.</li> <li>• Whistleblowing policy in place.</li> <li>• Enhanced processes in place to avoid scam pension fund transfers in accordance with TPR guidance.</li> <li>• The Pension Fund is signed up to the Regulator Pledge to carry out due diligence to reduce the risk of fraud.</li> </ul>	
Regulatory	Failure to comply with LGPS regulations and any other new regulations.	4	1	4	LR	<ul style="list-style-type: none"> <li>• There are sufficient fully trained staff.</li> <li>• Regular updates are received and acted upon.</li> <li>• Membership of relevant pensions professional bodies.</li> <li>• Welsh Pension Officer Group participation.</li> <li>• Welsh Pension Fund Treasurers Group participation.</li> <li>• Compliance with MiFID II.</li> <li>• Submit Annual Pension Scheme Regulator Return on time.</li> <li>• MHCLC/LGA guidance issued to Fund Employers around the 'Exit' Regulations (now revoked).</li> </ul>	
	Non compliance of procurement rules	1	2	2	LR	<ul style="list-style-type: none"> <li>• Regular budget monitoring.</li> <li>• Periodic review of suppliers.</li> <li>• Contract Procedure Rules.</li> </ul>	





## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2023-24

**PENSION FUND COMMITTEE**  
**20<sup>th</sup> MARCH 2024**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR -  
FINANCE, DIGITAL AND FRONTLINE  
SERVICES**

**AGENDA ITEM NO. 7**

**WALES PENSION  
PARTNERSHIP - UPDATE**

**Author – Barrie Davies, Deputy Chief Executive and Group Director -  
Finance, Digital and Frontline Services (01443) 424026**

#### **1.0 PURPOSE OF REPORT**

1.1 This report provides the Committee with an update on the work and progress with regard to the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

#### **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee:

2.1.1 Note the update.

#### **3.0 BACKGROUND**

3.1 As the Committee is aware the UK Government's requirement for all pension funds to pool their investments has been progressing in Wales through the WPP.

3.2 The Partnership governance arrangements include a JGC which meets around 4 times a year. Each pension fund in Wales is represented on the JGC by their Chair (or Vice Chair), with the Committee membership also comprising a co-opted (non-voting) scheme member representative.

3.3 The latest meeting of the JGC took place on the 13<sup>th</sup> March 2024. The agenda can be accessed [here](#), which was shared with all Committee (and board) members before the meeting.

3.4 At the last scheduled meeting of the JGC, the following annual policies and papers were reviewed:

- Host authority update
- WPP Training Plan 2024-25.
- WPP Business Plan 2024-27.
- WPP Risk Register (governance and regulation section)
- Review of Communication Policy and Governance Matrix
- Global Securities Lending Review as at 31<sup>st</sup> December 2023
- Operator update.
- Private Markets Update – Infrastructure
- Performance reports as at 31<sup>st</sup> December 2023.
- Responsible Investing and Climate Risk reports for UK Credit, Global Credit and Global Government Bonds.
- Quarter 4 2023 engagement report of Robeco, the voting and engagement provide of the WPP.
- WPP operator procurement recommendation report

Next Steps / Priorities:

- Development of the Property sub funds.
- Task Force on Climate-Related Financial Disclosures (TCFD) reporting.

Other Key areas:

- The renewal application for the signatory to the 2023 Stewardship Code was successful and published on the FRC website 21<sup>st</sup> February 2024.
- Virtual training sessions continue.
- The website continues to be updated with approved policies, press releases and details of sub-fund launches.

3.5 It is recommended that the Committee review and approve the WPP Business Plan 2024-2027 (Appendix 1)

#### **4.0 CONCLUSION**

4.1 This report provides the Committee with an update on the work of the Wales Pension Partnership and the Joint Governance Committee.

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# Wales Pension Partnership Business Plan 2024-2027



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# Introduction

This is the business plan for the Wales Pension Partnership ('WPP'), the business plan details the WPP's priorities and areas of focus for, 2024/25, 2025/26 and 2026/27. The business plan is constantly monitored and is formally reviewed and agreed every year. The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives of the WPP over the next three years
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

## About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Waystone Management (UK) Limited (Waystone) and they have partnered with Russell Investments to deliver effective investment management solutions with the aim of achieving strong net of fee performance for all the Constituent Authorities. We have a shared vision and agreement on the means and pace at which this vision will be achieved. The eight LGPS Funds (Constituent Authorities) of the Wales Pension Partnership are:



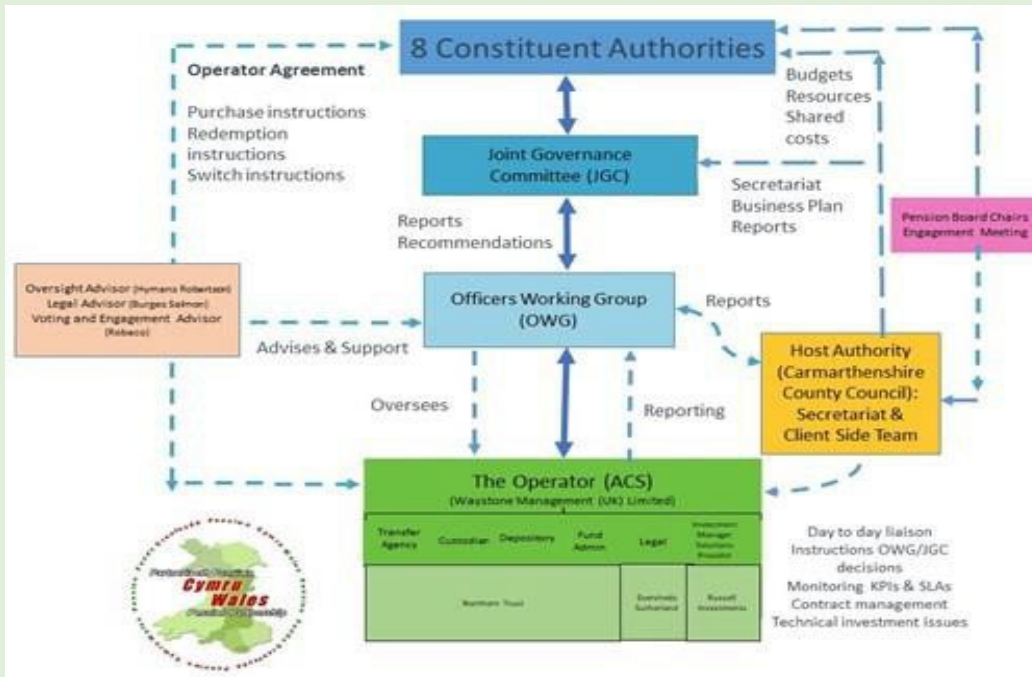
# Governance

The WPP is responsible for ensuring that its business is conducted in accordance with regulation and guidance. We must also ensure that: public money is safeguarded and properly accounted for, used economically, efficiently and effectively to ensure value for money. We also strive for continuous improvement and to conform with industry best practice.

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA), which defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers. The IAA includes a Scheme of Delegation outlining the decision-making process, taking into account the relevant legislation. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure, which has been designed to:



The diagram below shows WPP’s governance structure:



The Constituent Authorities sit at the top of the WPP’s governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving this Business Plan, which outlines the WPP’s budget and workplan, as well as its beliefs and objectives. The Constituent Authorities are heavily involved in all aspects of the WPP’s governance structure, while the WPP’s Joint Governance Committee and Officers Working Group are comprised respectively of elected councillors, scheme member representative and officer representatives from the Constituent Authorities.

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP ensures the meetings of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers are also made publicly available. Local Pension Board engagement days are also held regularly as a means of fostering stakeholder engagement. The WPP recognises the importance of all of its stakeholders to reflect this the WPP has put in place an Engagement Protocol Framework, this is carried out via the following engagement mechanisms:

Engagement mechanisms and Frequency:

- Strategic Relationship Review meeting Bi-Annual
- JGC Engagement Quarterly
- Manager Performance Meetings/ Calls Quarterly
- Training Events Quarterly
- OWG Engagement Quarterly
- Bi-weekly meetings Every 2 weeks
- Pension Fund Committees Annual
- Manager Engagement Days Annual
- Member Communications Annual
- Pension Board Engagement Every 6 months
- Engagement via the website & LinkedIn Continuous

# Risk Management

The Wales Pension Partnership ('WPP') recognises that it faces numerous risks which, if left unmanaged, can limit the WPP's ability to meet its objectives and to act in the best interest of its stakeholders and beneficiaries. However, the WPP also understands that some risks cannot be fully mitigated and that in these instances' risks need to be embraced through active and effective management.

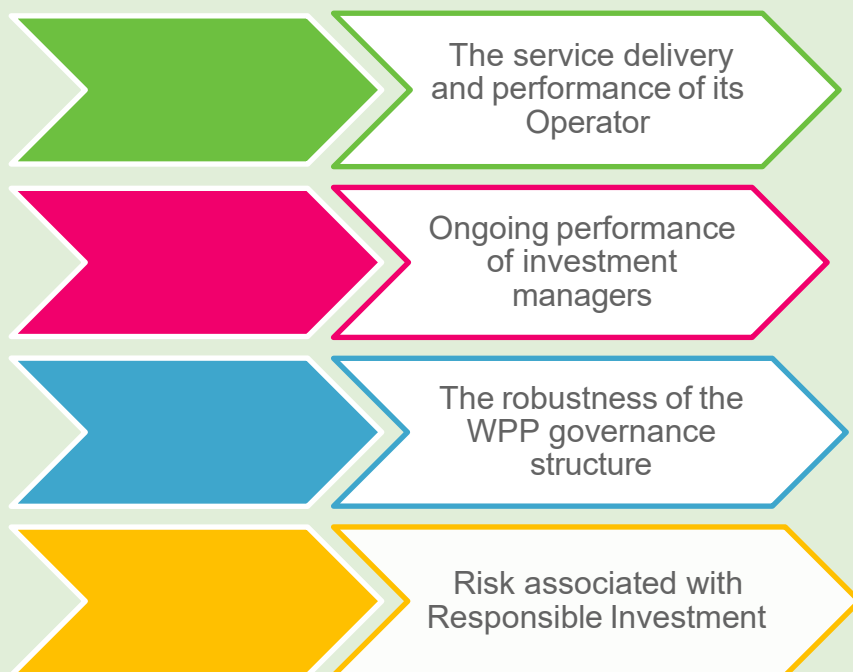
Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy. This strategy will be embedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.

The WPP's risk strategy seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without warning. To reflect this belief, the WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to risk. The extent to which the WPP is able to effectively balance risk and return will depend on the success of its Risk Policy. It is critical that prior to making decisions the WPP understands the associated risks and considers the means by which these risks could be managed.

The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives. The WPP's Business Plan is an additional means through which the WPP will give special recognition to risks that pose a material threat to the delivery of its objectives and the actions required to manage these risks.

During the course of this business plan the WPP will seek to develop mechanisms, frameworks and process for managing the following key risks:





# Objectives

The WPP is proud to represent the eight Constituent Authorities and recognises its duty to ensure the needs and requirements of all stakeholders are met. The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives these can be summarised as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical)
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments
- To deliver an investment framework that achieves the best outcomes for its key stakeholders; the Constituent Authorities. The Constituent Authorities will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers
- To embed the delivery of long-term, sustainable investment outcomes into decision making, through capital allocation, the ongoing scrutiny of asset managers, and the exercise of the rights and responsibilities that arise as asset owners.

The eight Constituent Authorities recognise that their strength derives from their shared beliefs and their ability to work together to deliver on their unified objectives for the benefit of all WPP stakeholders.

# Beliefs

The WPP's Beliefs reflect the collaborative nature and shared values of the Constituent Authorities, they are as follows:

- The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented
- Good governance should lead to superior outcomes for the WPP's stakeholders
- Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders
- Responsible Investment and effective Climate Risk mitigation strategies, alongside consideration and evidential management of broader Environmental, Social and Governance issues, should result in better outcomes for the WPP's stakeholders
- Effective internal and external communication is vital to achieving the WPP's objectives
- External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise
- Fee and cost transparency will aid decision making and improve stakeholder outcomes
- Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve
- Flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies.

# Policies

The WPP believes that good governance should lead to superior outcomes for the WPP’s stakeholders. In recognition of this belief, the WPP, in consultation with the Constituent Authorities, has developed a robust governance structure and framework and a set of governing policies. In all instances the WPP’s policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP understands the importance of formulating and codifying its policies and procedures. This process allows the WPP and the Constituent Authorities, to:



The WPP’s key policies, registers and plans are listed below and can be found on the WPP website.



The WPP’s policies are reviewed on a regular basis and the WPP will continually assess whether any additional policies, registers or plans are required. The policies play a vital role in the WPP’s governance arrangements and have been formulated with the sole purpose of providing a codified framework which will ensure that the WPP achieves its objectives in an effective and transparent means.

# Work Plan

The table below shows key priorities and objectives that the WPP aims to complete over the next three years. The workplan has been broken down into a number of key sections which are all vital to the continued success of the WPP

- **Governance** - The WPP believes that good governance leads to better outcomes for its stakeholders, as such it will further develop its governance framework and carry out ongoing reviews of its existing governance documents and structure.
- **Ongoing Sub-Fund development** – To date the WPP has pooled c70% of its assets and a number of other sub funds are in the process of being developed. The WPP will continue to consult with the Constituent Authorities to ensure that all suitable assets are pooled.
- **Operator Services** - The Operator, alongside the third parties that it employs on behalf of the WPP, are critical to the ongoing activities of the WPP, therefore service delivery of the Operator and third-party suppliers are crucial. The current operator contract comes to an end in December 2024 and the procurement process for the new operator contract is underway.
- **Investments and Reporting** - The WPP recognises the importance of ensuring that existing investment solutions remain optimal and aligned to Constituent Authority requirements, while also delivering the investment return expectations of the Constituent Authorities. The WPP will continue to deliver on its reporting requirements covering areas such as investment performance, risk, Stewardship activities, Responsible Investment and Climate, and will develop further reporting, as and when required.
- **Communication and Training** - The WPP wants to ensure that internal stakeholders and external parties are aware of the WPP's progress and publishes numerous report and updates to ensure that it proactively communicates its progress to stakeholders. These can all be found on the WPP website.
- **Resources, Budget and Fees** - The WPP recognises that insufficient resources pose a significant risk to its ability to deliver an investment framework that achieves the best outcomes for its key stakeholders, the WPP carries out a number of reviews to guarantee that it has suitable resources to deliver on this commitment.

Work to be completed	2024 - 2025	2025 - 2026	2026 - 2027
<b>Governance</b>			

Oversight Advisor procurement process

Consideration of WPP's Levelling up / impact requirements

# Training Plan

It is best practice for WPP personnel to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions;
- the pooling of Local Authority Pension Schemes; and
- relevant investment opportunities.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

WPP personnel should obtain a degree of knowledge and understanding that ensures they are able to carry out their duties associated with the WPP. WPP personnel should also be aware of the WPP's framework, beliefs, policies, governance matrix, the decision-making process and decision logging process.

To aid WPP personnel, the Host Authority will arrange quarterly training sessions which will cover major areas such as investments, administration, regulation requirements, government guidance and market developments. The WPP's training events will primarily focus on meeting the training needs of members of the OWG and JGC, however Constituent Authorities are encouraged to invite Pension Committee Members, as well as Pension Board Representatives if they believe that the training would be beneficial to these individuals.

We have set out below a list of training topics which the Host Authority will arrange training for during the 2024/25 financial year. WPP's training topics are based on current WPP topical priorities and from an analysis of the WPP training requirements questionnaire/ assessment responses, completed by members of the Joint Governance Committee ('JGC') and Officers Working Group ('OWG').

Product Knowledge and Cyber Security:

- o WPP Pooled Investments
- o Overview of cyber security and consideration for WPP

Policies:

- o Responsible Investment Policy
- o Climate Risk Policy
- o Stewardship Policy

Responsible Investment (RI):

- o Net Zero journey planning
- o Climate Metrics

Market Understanding & Regulatory Requirements:

- o Progress of other LGPS pools & Collaboration Opportunities
- o Any new regulatory / guidance developments

# Budget

The table below outlines the WPP's budget for the next three years.

	Forecast 2023-24 outturn	2024-25	2025-26	2026-27
	£'000	£'000	£'000	£'000
Host Authority *	173	231	239	245
External Advisors *	1,559	1,411	1,435	1,541
<b>TOTAL to be recharged</b>	<b>1,732</b>	<b>1,642</b>	<b>1,674</b>	<b>1,786</b>
Operator **	36,079	40,734	45,705	50,231
Allocator **	1,796	7,006	7,016	7,302
<b>TOTAL to be deducted from the NAV</b>	<b>37,875</b>	<b>47,740</b>	<b>52,721</b>	<b>57,533</b>

*\*Host Authority and External Advisor costs are to be funded equally by all eight of the WPP's Constituent Authorities and these will be recharged on an annual basis.*

*\*\*Operator / Allocator Services costs are based on each Constituent Authority's percentage share of WPP assets and are deducted directly from the Net Asset Value (NAV) of the Constituent Authority's assets.*

# Investments & Performance

The WPP's Constituent Authorities have total assets of circa £22.5bn (as at 31 March 2023). The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP authorities in the form of insurance policies.

The Officers Working Group receives quarterly, six monthly and annual performance reports, the group reviews and challenges the performance of Investment Managers on behalf of the WPP. The WPP hosts annual manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at local level, this will include manager attendance at Pension Committees. Below we outline the WPP's existing Sub-Funds.

## Equity Sub-Funds



Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Growth	MSCI ACWI ND	RCT, Dyfed, Gwynedd, Cardiff and Powys	Baillie Gifford, Veritas and Pzena	Feb 19
Global Opportunities	MSCI ACWI ND	Swansea, Torfaen, Gwynedd, RCT and Cardiff	Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, Nissay, Intermede and Oaktree	Feb 19
UK Opportunities	FTSE All Share	Cardiff and Torfaen	Baillie Gifford, Ninety-One, J O Hambro, Liontrust and Fidelity	Sept 19
Emerging Markets	MSCI Emerging Markets ND +1.5%	Cardiff, Clwyd, Gwynedd, Powys and Torfaen	Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree	Oct 21
Sustainable Active Equity	MSCI ACWI ND	Cardiff, Clwyd, Dyfed, Gwynedd, Powys, RCT, Swansea and Torfaen	Sparinvest, Mirova, Neuberger Berman, Wellington and Artemis	June 23

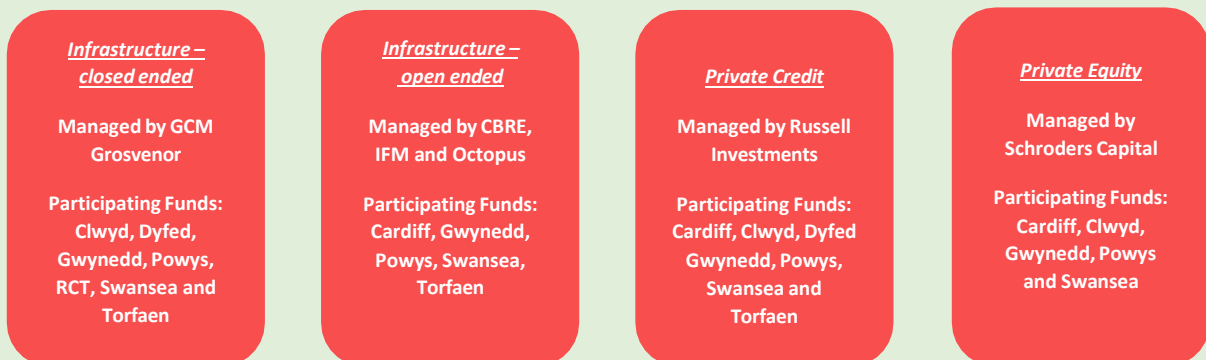


## Fixed Income Sub-Funds



Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Credit	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	Cardiff, Dyfed, Gwynedd, Powys and Torfaen	Western, Metlife, Fidelity and Robeco	July 20
Global Government	FTSE WGBI Index (GBP Hedged)	Cardiff and Torfaen	Bluebay and Colchester	July 20
Multi-Asset Credit	3 Month GBP SONIA plus 4%	Cardiff, Clwyd, Gwynedd, Powys, and Swansea	ICG, Man GLG, BlueBay, Barings and Voya	July 20
Absolute Return Bond Fund	3 Month GBP SONIA plus 2%	Gwynedd, Powys and Swansea	Wellington, Aegon and Insight	Sept 20
UK Credit Fund	ICE BofA ML Eur-Stg plus 0.65%	RCT	Fidelity	July 20

## Private Markets



# Contact Details

If you require further information about anything in or related to this business plan, please contact the Wales Pension Partnership:

Postal Address - Wales Pension Partnership

Carmarthenshire County Council

Treasury & Pension Investments Section

County Hall

Carmarthen

SA31 1JP

E-mail - [WalesPensionPartnership@carmarthenshire.gov.uk](mailto:WalesPensionPartnership@carmarthenshire.gov.uk)

Telephone - (01267) 224136

Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website can be found here:

<https://www.walespensionpartnership.org/>



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