

DYFED PENSION FUND PENSION BOARD

25 OCTOBER 2023

PRESENT: Mr. J. Jones (Chair) (In Person);

Board Members (In Person):

Mr. R. Edwards, Employer Member Representative;
Mr. M. Evans, Member Representative;
Councillor A. Lenny, Employer Member Representative;
Councillor W. Thomas, Employer Representative;

Board Member (Virtually):

Mr. T. Bowler, Union Member Representative.

Also present as an observer (Virtually):

Councillor D.E. Williams, Chair of the Dyfed Pension Fund Committee;

Also Present (In Person):

R. Hemingway, Head of Financial Services;
A. Parnell, Treasury & Pension Investments Manager;
J. Williams, Assistant Accountant;
E. Evans, Principle Democratic Services Officer;
S. Rees, Simultaneous Translator;
J. Owen, Democratic Services Officer.

Also in attendance (Virtually):

Mr. A. Brown, Independent Investment Advisor.

Chamber, County Hall, Carmarthen, SA31 1JP and remotely: 1:00pm - 3:08pm

[Note: At 2:46pm, the Board took a comfort break resuming at 2:53pm.]

1. APOLOGIES FOR ABSENCE

An apology for absence was received from M. Rodgers, Pensioner Member Representative.

2. DECLARATIONS OF PERSONAL INTEREST

There were no declarations of personal interest made at the meeting.

3. MINUTES OF THE PENSION BOARD MEETING HELD ON THE 19TH JULY 2023

AGREED that the minutes of the meeting for the Pension Board held on the 19th July 2023 be confirmed as a correct record.

4. **DYFED PENSION FUND COMMITTEE MEETING 28 SEPTEMBER 2023**

The Board received, for consideration and comment, the reports considered by the Dyfed Pension Fund Committee on the 28th September 2023, as referred to in minutes 4.1- 4.10 below.

4.1. **PRE-AUDIT STATEMENT OF ACCOUNTS 2022-2023**

The Board received the Pre-Audit Statement of Accounts 2022-23 which was considered and approved by the Dyfed Pension Fund Committee on 28th September 2023.

The Dyfed Pension Fund accounts provided information about the financial position, performance and financial adaptability of the Fund for the year 2022-23 which included:

- The Fund Account.
- The Net Assets Statement.
- The Statement by the Consulting Actuary

The Board was informed that the Statement of Accounts as available on the website for public viewing and was due to be presented to the Governance and Audit Committee on 27th October 2023 in order to comply with the Accounts and Audit (Wales) Regulations 2014.

The following observations/queries were raised and responded to:-

- The Treasury & Pension Investments Manager, in response to a query regarding the reduction of the net assets from £210m to a deficit of £83m raised it was highlighted that the majority was attributed to an unrealised loss of £106m which was linked to a change in the value of the market fund and as the equity and fixed income had been volatile this year causing the market value to reduce.
- In response to a query regarding the figures relating to the current assets since March 2022, the Treasury & Pension Investments Manager reported that the increase was primarily due to the late pay award in March 2023. Furthermore, the other main element was the cash balance held by the Carmarthenshire County Council's Treasury Management for the Dyfed Pension Fund which increased from £4.5m to £6.6m in the year.
- The Board wished to convey thanks to the officers and staff involved in the preparation and completion of the accounts.

UNANIMOUSLY AGREED that the Pre-Audit Statement of Accounts 2022-2023 be noted.

4.2. BUDGET MONITORING 1ST APRIL 2023 - 30 JUNE 2023

The Board received the Dyfed Pension Fund Budget Monitoring report which provided an update on the latest budgetary position in respect of the 2023/24 financial year.

It was reported that the expenditure was projected to be underspent by £1.3m on Pensions Payable. In addition, it was highlighted that at the budget setting for 2023-24, an increase of 2.2% was included to estimate the additional pensions paid on new pensioner members for the year and to date the actual increase in pensioner membership was closer to 1%.

In terms of income, it was reported that contributions were forecasted to be £1.9m which was more than budgeted due to member pensionable payroll being higher than anticipated at budget setting. Investment income was forecast to be below budget by £2.3m. Therefore, income was forecasted to be below budget by £0.4m.

It was noted that the overall total expenditure was estimated at £121.5m and total income estimated at £122.4m resulting in a positive cash flow position of £0.9m.

UNANIMOUSLY AGREED that the report be noted.

4.3. CASH RECONCILIATION AS AT 30TH JUNE 2023

The Board considered the Cash Reconciliation report which provided an update on the cash position in respect of the Dyfed Pension Fund as at 30th June, 2023.

AGREED that the report be noted.

4.4. PENSIONS ADMINISTRATION REPORT

The Board considered a report providing a progress update on a number of projects being undertaken, along with information on relevant issues in the administration of scheme benefits.

The following observations/queries were raised and responded to:-

- In referencing the McCloud/Sargeant update concern was expressed regarding the implications impact in terms of the resources required to recalculate all the pensions. It was asked, if additional resources would be required in order to complete the work? The Head of Financial Services reported that the team had been increased over the last few years in order support the data gathering however, more specifically a further staff member had recently added to the team in order to work on the data collection exercise. It was highlighted that following some test calculations, uncertainty remained in regard how many calculations could be automated and how much would have to be done manually and therefore further tests would be required to

ascertain how the system could make the workload more manageable.

It was asked, if AI could be employed to undertake the work required? The Head of Financial Services explained that Artificial Intelligence was being explored across a range of services with the aim to alleviate officer's time.

AGREED that the Pension Administration Report in relation to the Dyfed Pension Fund be noted.

4.5. BREACHES REPORT

The Board considered the Breaches Report in relation to the Dyfed Pension Fund. It was noted that Section 70 of the Pension Act 2004 sets out the legal duty to report breaches of the law. The Dyfed Pension Fund Breaches Policy was approved by the Dyfed Pension Fund Committee in March 2016 and under the policy, breaches of the law are required to reported to the Pensions Regulator.

Since the last Pension Fund Committee meeting there had been a few instances where employee/employer contributions had not been received on time. This matter has been reported to the Pensions Regulator.

AGREED that the Breaches Report in relation to the Dyfed Pension Fund be noted.

4.6. RISK REGISTER

The Board was advised that the Risk Register was a working document that highlighted all the risks identified in relation to the functions of the Dyfed Pension Fund. The risk register is regularly monitored and reviewed and risks are identified as operational and strategic. It was reported that there had been no changes since the previous Committee meeting.

The following observations/queries were raised and responded to:-

- In acknowledging the issues currently happening in the middle east, it was recognised that there could be high potential for market volatility impacting upon assets values. It was asked, if and how the fund could be protected? The Treasury & Pension Investments Manager explained that risk register included geo-political events, however, it was reported that there was a minimal number of investments within affected areas.

In response to a further query regarding investments within the armaments industry, the Treasury & Pension Investments Manager gave reassurance in that investments in affected areas were at a minimum and those investments in areas of concern were closely monitored.

- In reference to the comprehensive and detailed register, it was asked if there was scope in removing the lower risks. The Treasury & Pension Investments Manager explained that whilst the register was reviewed on a quarterly basis, the lower rated risks remained on the register in the case of reoccurrence e.g. Coronavirus. However, further consideration in regard to the lower risks would be undertaken prior to the next Dyfed Pension Fund Committee meeting.

AGREED that the risk register update be noted.

4.7 WALES PENSION PARTNERSHIP (WPP) - UPDATE

The Board considered an update on the activities and progress of the Wales Pension Partnership including work that has been completed since the last JGC meeting and the WPP's next steps/priorities.

The following observations/queries were raised and responded to:-

- The Treasury & Pension Investments Manager in response to a query stated that all the resources available within Link Solutions Group had been seamlessly transferred to the Waystone Group. In addition, the Waystone Group had provided further staff which was welcomed. It was also reported that there would be no increasing costs for the WPP as a result of the takeover. Furthermore, the Board was informed that whilst the senior management would be the same, a Chief Executive Officer from Waystone Group would also be joining the management structure which was a welcomed additional resource at a senior level.

AGREED that the WPP update report be noted.

4.8. TRAINING PLAN 2023-2024

The Board considered the Dyfed Pension Fund Training Plan for the period 2023/24 detailing meetings, training events and the members and officers anticipated to attend those events.

AGREED that the Dyfed Pension Fund Training Plan for the period 2023/24 be noted.

4.9. STRATEGIC ASSET ALLOCATION (SAA) REVIEW 2023

The Board considered a report providing details of the Strategic Asset Allocation (SAA) Review which examined the overall SAA of the investment portfolio and provide recommendations as to where any portfolio optimisation could be implemented to meet the Fund's objectives and requirements.

The report proposed a recommendation to adopt Option 1A which included an allocation of 5% to Private Credit which would be funded by a decrease in allocation to Equities. A further recommendation from the report was to cease the reinvestment of income generated from the Global Credit Fund and to begin receiving this income as a distribution.

The following observations/queries were raised and responded to:-

- Reference was made to figure 3 – Forecast Income Required/Generated by Current SAA located on page 12 of the report. In recognition that the balance had decreased throughout the 5-year period, it was asked if the balance would level out longer term? The Independent Investment Advisor stated that it was expected that the balance would continue to deteriorate over the long term. It was normal for Pension funds to be cash negative as time progresses and as the fund matures due to more older pensioners and fewer current employees. Due to the funds level of sufficient income, this was not deemed as a material risk.
- It was asked, what were the risks involved in investing in private credit in terms of defaults or not delivering returns? The Independent Investment Advisor explained that private credit is typically second tier or mid-cap companies as well as some private equity deals. It was acknowledged that there was a slight risk in investing in private credit companies however, the interest rate was higher than a corporate bond. The Independent Investment Advisor further explained the argument for investing in private credit.
- With reference to the movement of the fund, it was asked if the fund had experienced this previously? The Independent Investment Advisor reported that the fund had not made a shift on this scale recently however typically this would be a move that would be undertaken periodically in order to ensure that the portfolio remained optimised in meeting the fund's objectives and requirements. The Treasury & Pension Investments Manager stated that the main change was in 2016 when it was decided to go into infrastructure at 5% in the WPP. The Independent Investment Advisor added that moves such as this build up over a number of years to raise the 5% into the private credit fund.

AGREED that the Strategic Asset Allocation Review be noted.

4.10. DRAFT MINUTES OF THE DYFED PENSION FUND COMMITTEE MEETING 28 SEPTEMBER 2023

AGREED that the draft minutes of the meeting of the Dyfed Pension Fund Committee held on the 28th September, 2023 be noted.

5. PENSION BOARD BUDGET MONITORING 1 APRIL 2023 - 30 SEPTEMBER 2023

The Board considered the Pension Board Budget Monitoring report as at 30th September, 2023. Total actual expenditure incurred was £9.6k. The expenditure for the year was forecast to be in line with budget.

AGREED that the report be noted.

6. PENSION BOARD WORK PLAN 2023

The Board considered the Pension Board Workplan for 2023 outlining the proposed work of the Pension Board and the items to be presented at each meeting.

AGREED to note the Pension Board Workplan for 2023.

7. PENSION BOARD WORK PLAN 2024

The Board considered the Pension Board Workplan for 2024 outlining the proposed work of the Pension Board and the items to be presented at each meeting.

AGREED to approve the Pension Board Workplan for 2024.

8. EXCLUSION OF THE PUBLIC

RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following items as the reports contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

9. EVALUATION CRITERIA - WALES PENSION PARTNERSHIP OPERATOR PROCUREMENT

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in Minute Item 8 above, to consider this matter in private, with the public excluded from the meeting as disclosure would adversely impact upon the Pension Fund by putting investment performance at risk.

The Board considered a report on the Evaluation Criteria for the Wales Pension Partnership Operator Procurement.

AGREED that the report be noted.

10. NORTHERN TRUST SECURITIES LENDING PERFORMANCE REVIEW 2022-23

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in Minute Item 8 above, to consider this matter in private, with the public excluded from the meeting as disclosure would adversely impact upon the Pension Fund by putting investment performance at risk.

The Board considered a report on the Northern Trust Securities Lending Performance Review 2022-23 which contained the following:-

- Programme overview
- Market trends and observations
- Performance analysis
- Collateral analysis

AGREED that the Northern Trust Securities Lending Performance Review 2022-23 be noted.

11. ROBECO ENGAGEMENT REPORT 1 JANUARY 2023 - 31 MARCH 2023

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in Minute Item 8 above, to consider this matter in private, with the public excluded from the meeting as disclosure would adversely impact upon the Pension Fund by putting investment performance at risk.

The Board considered the Robeco Engagement report for the period 1st January 2023 – 31st March 2023.

AGREED that the report be noted.

12. INDEPENDENT ADVISOR PERFORMANCE & RISK REPORT TO 30 JUNE 2023

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute Item 8 above, to consider this matter in private, with the public excluded from the meeting as disclosure would adversely impact upon the Pension Fund by putting investment performance at risk.

The Board considered the Independent Investment Adviser Performance and Risk Report which provided details in relation to the Investment Managers' performance for the quarterly, 12 month and rolling 3-year period ending 30th June, 2023. The report also included the global market background and issues for consideration.

AGREED that the Independent Adviser Performance & Risk report as at 30th June, 2023 be noted.

13. NORTHERN TRUST PERFORMANCE REPORT TO 30 JUNE 2023

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute Item 8 above, to consider this matter in private, with the public excluded from the meeting as disclosure would adversely impact upon the Pension Fund by putting investment performance at risk.

The Board considered the Northern Trust Performance report which detailed the performance of the Dyfed Pension Fund as at 30th June, 2023. The report provided performance analysis at a total fund level and by Investment Manager for the periods up to inception.

AGREED that the Northern Trust Performance report for the Dyfed Pension Fund as at 30th June, 2023 be noted.

14. INVESTMENT MANAGER REPORTS TO 30 JUNE 2023

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute Item 8 above, to consider this matter in private, with the public excluded from the meeting as disclosure would adversely impact upon the Pension Fund by putting investment performance at risk.

The Board considered a report providing an update on Investment Manager performance as at 30th June, 2023:

AGREED that the Investment Manager Reports for the Dyfed Pension Fund be noted.

CHAIR

DATE