Clwyd pension fund annual report

As you plan to retire, you may want to figure out how to get a pension. There are basically two ways to get one: Find an employer who offers a pension or figure out a way to make your own. A pension is a source of guaranteed retirement income provided by the employer to employees who have qualified for this benefit. To be entitled to a pension benefit, you usually have to work for your employer for a certain number of years (this number may vary). Your pension benefit usually increases when you accumulate additional years of employment with this employer. Pensions are also referred to as defined benefit pension plans because they are intended to define the future retirement benefits you receive. To get a pension, you can look for a job at an organization that offers retirement benefits and then work there long enough to become eligible for those benefits. Many government jobs, both at the federal and state levels, offer retirement benefits. Some examples of these types of jobs include positions with the military, police and firefighters. However, some states have stopped offering retirement plans to new employees. Large private employers can also offer retirement benefits, but this is not as common as it used to be. Ask your potential employer if they are offering a pension and what you need to do to become eligible for this pension. It is important to remember that 401 (k) benefits are not the same as a pension. With a 401 (k) you need to contribute your own money to the plan, and the employer can make a corresponding contribution and/or profit-sharing allowance. With a 401 (k) plan, you are responsible for making decisions about the money inside the plan. If your employer offers a 401 (k) but not a pension, one option is to use your 401 (k) money to create your own retirement benefit upon retirement. When you retire, you can use your own savings, such as money in a 401 (k) plan or IRA, or savings that are not in the retirement plan, to buy an immediate annuity that would make you pay a guaranteed income for the rest of your life. This way you can create your own pension. Delaying the start date when you start your Social Security benefits may also be a way to create a larger flow of retirement income for yourself. For example, if you retire at the age of 66, you can use the savings to buy an annuity that provides a guaranteed income for four years. You can then start receiving Social Security benefits at the age of 70, which would pay a much larger amount than if you started taking them at the age of 66. That's because your contributions will have more time to grow, and there's more money to pay in the near future. Consider your spouse when you make retirement choices if you are married, whether you get a pension through an employer or make your own. You can choose whether your pension will pay a benefit just for your life, or you can go with a joint/ option that will pay out a monthly amount as long as one of you or your spouse lives. There are many ways to to you as you plan your retirement, and retirement is just one of these options. If you want to know more about the opportunities available to you, then it is wise to consult with the financial planner for help. This course starts with an overview of business investments, short-term and long-term investments and helps you prepare consolidated financial statements. We will further cover pension accounting and understand the accounting of share options by examining the different types of pension plans, the cost components of the pension plan and the assets of the plan. We wrap this course by looking at the financial statement analysis, where we cover financial information sources, performance analysis, financial circumstances, and also learn how to evaluate the company's performance. This course is part of the 5 New York Institute of Finance Financial Accounting Professional Certificate. Accounting for Investments Financial Report Analysis of Retirement Accounting, Accounting for Stock Options Mod 01: Accounting for Investments Mod 02: Retirement Accounting, Accounting for Stock Options Mod 03: Financial Report Analysis by BRIAN KENNY: Anyone Who Loves a Villain or So They Speak in Hollywood. And since the early days of the film, writers and directors have found ready-made foils on Wall Street. Exhibit A, Gordon Gecko, a character played by Michael Douglas in Oliver Stone's 1987 classic Wall Street. Gecko, who is even named after a lizard, is a useless corporate raider who has become a poster image of excess and greed that Wall Street has never been able to shaking. A stereotype for sure, but one that exists for a reason. Because whether it's life imitating art or vice versa, business as a whole has too often lived up to a sinister picture. So, is it possible to rotate this script? Will there ever be a time when business plays heroes? Today we will talk to Professors Rebecca Henderson and George Serafeim about their case called Should the Pension Fund try to change the world? Inside the GPIF embrace ESG. I'm your host Brian Kenny, and you're listening to Cold Call recorded live at Klarman Hall Studio at Harvard Business School. Rebecca Henderson's work explores how organizations respond to large-scale technological change, most recently with respect to energy and the environment. She also created a course, Reimagining Capitalism in the MBA program, which she co-teaches with our other guest, George Serafeim, whose research focuses on measuring, managing, and communicating corporate performance and social impact. Welcome, both of you. Hey, Brian. It's a pleasure to be on the program. George Serafeim: Thank you so much Brian for having us. And Rebecca, this is your second time on Cold Call, so this is... This is the first time we've managed to get George here, so it's going to be great. It's going to be fantastic. It's always great to talk to you. Rebecca, can you do this to me. Set up a case for us. Who's the protagonist? And what do they mean? Certainly. The main character is Hiro Mizuno. He is the chief investment officer of the GPIF, which is japan's government pension investment fund. It controls $1.6 trillion in assets. This is big enough that the fund owns about 10% of the Japanese stock market and about 1% of the world stock market. It is one of the largest pools of capital in the world. The case opens with Hiro settling back into his plane seat as he watches San Francisco disappear beneath him. He thinks: Am I doing the right thing? I'm pushing all the people who manage this money to get really serious about environmental, social and governance issues, about ESG issues. Is that a good idea? Is that what I should be doing? He's sure that's what he should be doing. What he really cares about is whether you just need to change the world. But the case is also about, is it the right thing to do? If he manages all that money, shouldn't he focus on making money? Why is he worried about the environment and social and governance issues? That's really what this case is about. Brian Kenny: These are some radical ideas that we're going to get into before we discuss the case further. What led you to write this case? How did you know about GPIF and what they were doing? Actually, I heard about it from George. That was George's idea, but I was the one who flew the plane and flew to Japan. George's research for a long time looked at whether and how the financial sector might be able to play a major role in making the economy more sustainable and more just. He got a really deep interest in a group of investors that we call Universal Investors. These are people who have so much money, either because they have so much money or because they are invested in what is called passive funds, where you can't move where your money is invested. Just hold, say, a Fortune 500. Got really interested in whether these investors could really change the world because for them, and that's a key issue at the heart of the case if you have to hold every equity on the planet you can't diversify from the risks to the whole economy. For Hiro, the risk of climate change is not some abstract thing that could happen to some other companies. He believes that the entire economy is

at risk and that the Japanese economy is at risk from these issues. The somewhat central question is whether these very large asset owners could actually be a very powerful force for good in the world. So, George, I'm going to ask you, because you're the one who brought the GPIF to Rebecca. Where does the GPIF sit in the country, I think not just in the Japanese economy, but a little bit in the global economy, and where does it relate to pension funds? This is a great question, Brian. Let's put it a little into as for how we understand the entire capital market, don't we? You can think about traditional investing. In traditional investments we tend to think about buying PepsiCo? Are you buying coke? And you're thinking about this whole competitive country, right? We also tend to think about it in terms of relatively short-term horizons. You buy them, and maybe you buy them for months or a year or something like that, and then turn to your portfolio. When you consider an institution like the GPIF or many of those large pension funds that Rebecca listed as universal loaners, they are on the extremes of these two benchmarks in terms of exposure, broadly to industry or the market, or exposure to very long-term horizons in terms of ownership. When you have institutions like GPIF that have very long-term horizons and have very widely diversified ownership, many things that traditionally are public goods problems for them and you have free-rider problems that don't exist for you anymore because effectively you're interested in the market. There is almost this horizontal axe time horizon and the vertical axe of joint ownership of competitors within industries, there is a set of investors that are at the extreme end of that. The GPIF is one of them, and then you have other investors who are right there. You can start thinking about other large pension funds, but also very large institutional investors, especially index managers like Blackrock, Vanguard, and many of those other institutions that tend to exhibit these characteristics. I tend to lump all these types of investors together and really call them trustees in the Commons because for them, actually trustees of the Commons are compatible with stewards in both client assets. You really care about the quality of the market for these types of institutions. This connects a lot of your work at ESG, and I'm going to ask you to explain what that means. And also just the concept of integrative reporting, because this also becomes an important aspect of the case. Just if you could, describe those two things. George Serafeim: Absolutely. The ESG stands for Environment, Social and Governance. You can think about it in an ecological bucket, about climate change, about waste, about water problems and so on. In the social bucket, we tend to have problems around employees, employee safety, employee satisfaction, engagement, but also issues of employee diversity and of course issues related to customers in terms of product safety, access to products, affordable products, and so on. On the management side, we have issues of council diversity, anti-corruption issues and some of these aspects relating to governance. Then the question we have been asking for a long time is the extent to which these issues tend to be financially substantial, or issues that are pure public health. I think the answer that we get there is, It depends. it really depends on the industry you are that you're operating in. Now we've started to develop this understanding of what makes some of these issues material within the industry, and as a result, investor importance. Something the GPIF should pay attention to and should try to drive corporate performance to it. Integrated reporting. Let me start by saying that integrated thinking is actually more important. Integrated reporting is a reflection of what is happening inside the company when it comes to integrated thinking. What is integrated thinking? Is actually managing not only your financial capital, but really your social capital, your natural capital, and human capital? Through this leadership then it is about communicating how you co-manage all these forms of capital and being able to show the importance of their relationship. That's what integrated news has to do. Reflecting integrated thinking in the company. It's really interesting. Over the last ten years, we have seen huge developments in integrated reporting. Now with thousands of larger organizations releasing some kind of self-tagged integrated message, but of course, there is a wide variation in terms of the quality of these messages. I bet it is. Everyone is used to seeing the annual reports. That was common practice. But this focus is almost entirely on the financial aspects of things, but what you're describing is fundamentally different than that. George Serafeim: It's fundamentally different. It's something that has robust metrics. It has a accountability mechanism. He's got goals. It has a forward looking perspective, and it really focuses on what is essential for the business and how in fact driving performance towards some of these METR ESG will end up driving the business itself in terms of return on capital in terms of growth in terms of capital costs and some of these things. Brian Kenny: And it becomes really important in the context of what gpif is trying to do, so we'll talk more about it as well. Rebecca, can you describe japan's public pension system? It's a big tricky thing. I was actually surprised because the case has a lot of details about both the GPIF and the other players that are in it, but also about some of the concerns that seem to exist there and the criticisms of their approach. Certainly. The reason we go into a bit of detail about the nature of the pension plan is we're hoping that real pension plans will use this case. If you work for a pension fund you want to know what's going on, so briefly, there's about three trillion dollars worth of pension fund assets in Japan. The GPIF manages about half of them. Everyone in Japan has a compulsory public pension, whether it is an employee in a private enterprise or whether they are a private individual. The GPIF manages two of these large funds, which is around half of the total In Japan, there is a concern that there are not enough assets in the fund to cover payments, so the fund is under some pressure to show that what it is doing in the long-term interest of pensioners and will bring significant financial returns. Brian Kenny: As we get into the case, it goes back to some details about gpif development and their strategy. You can describe, George, what the strategy was before the new mandate, and then we will get into a new mandate. George Serafeim: The first thing to understand is that gpif is really a giant real organization when it comes to property, but it's actually a pretty small organization in terms of people, number of people. This brings a certain number of complexity. For example, you can't really manage with an organization that you have right now, an asset internally. As a result, you choose external managers, and then choosing these external managers becomes really, really important, who you choose and will be able to choose wisely. Traditionally what happens with GPIF is that most assets have been allocated in bonds and fixed income. I think that this has long led to some of them being in relative terms of the fund's performance, and not to the types of return expectations that you should have to cover future liabilities that Rebecca mentioned earlier. As a result, this investment practice has been reassessed and one of the recommendations was in fact to move more towards e-activities and diversify the portfolio more outside Japan, thereby increasing foreign exposure. Of course, to do that goes to my first point, you have to have the real expertise to choose the right asset managers. This included the embrace of ESG investment as a practice and as a tool for cultural change of the GPIF and to become more open, towards new opportunities in order to advance the performance of the pension fund. Brian Kenny: There was an interesting anecdote in the case about what may have prompted Mizuno to start thinking about ESG more seriously. Do you remember that? George Serafeim: It's a really interesting conversation with the then Secretary General Koffi Annan over dinner and at some point Koffi Annan asked Hiro why people in Japan don't care about esg. Hiro actually asked: What is ESG?, because there are so many shortcuts. As soon as he understood, he said, I'm not sure that people really care. I think people care about these issues. Then he returned to Japan. Hiro previously had a career in London and returned to Japan. He actually realized that indeed Japanese asset managers, but also the business community, were not advanced when it came to ESG issues. He did not provide information, so very few companies were actually internally managing ESG issues and also reporting and communicating information on ESG issues. At the same time, most asset managers did not take these types of issues into account. Brian Rebecca, just from your job, looking at companies across the spectrum, how radical was the idea Hiro was proposing? This concept let's start thinking about these three integrated subjects together in a different way. It's interesting. The radical part was thinking about all three. Many Japanese asset managers and investors were concerned about governance. Historically, Japanese firms have not been very receptive to investor input for reasons that we can talk about and that there is a lot of evidence that has negatively affected their performance. Focusing on governance, focusing on: God, it wasn't radical at all. It was the idea that you should also focus on the E and S that everyone was like, Whoa! Why are you doing this? That was very countercultural. Brian Kenny: It's interesting in Japanese culture, the relationship to the environment has always been a really important part of dating back 1000s years in Japanese culture. Rebecca Henderson: Part of what's happening is most Japanese experience themselves as very good environmentalists. The streets are clear. People don't discharge huge amounts of toxic waste. But it turns out on fossil fuels, for example, Japan is really a laggard among a community of developed nations. Partly because of the Fukushima disaster. They took nuclear power from about 10% of total energy in Japan to 1%. Japan is like 92% fossil fuel powered, which is really an outlier. The Japanese don't see it. They don't think they have an environmental problem. Rebecca Henderson: When it comes to social issues, the issue that Hiro is most focused on is the issue of women's inclusion in the workplace. Japan as a nation is one of the least advanced when it comes to gender equality in the world. One measure ranks 105th out of 136 countries and 114 out of 144 others. Does it tie back to Japanese culture? Is there a tradition that makes it harder for women to have equality in the workplace? It's a complicated problem, but there are two main factors. One is that women have not played senior roles in government or business in the past. On the other hand, women had a great responsibility to care for children and men worked extremely long hours. It's still a business culture in which one of the signs of success works punishingly long hours in every sector, and women have to be at home looking after children. As someone who was a single mom myself, I mean the idea that you do your job full time and then you come home and you do all the childcare? It's really hard, and then the tax code reinforces the idea that women should fundamentally stay at home. So women who have an excellent education, many of them go to university when they come out and join the business, are funneled into the second level of the track. There are two clues, managerial and administrative, and women are into administration. When you visit Tokyo, and I was really surprised by the fact that you visit ... Tokyo is the most beautiful modern city, and you go to huge skyscrapers of concrete and glass with spectacular views, and you come to the office, and a man stands up to greet you and he is surrounded by a cloud of beautifully dressed, clearly very intelligent and on-the-ball women who serve tea. What is it? Looks like it's very mysterious, doesn't it? Western standards seem to be incredibly arcane. One of the things that is happening here is the Abe administration looking at the demographic crisis that Japan is facing because their birth rate is falling faster than almost anywhere else in the world and they are not open to immigration. One solution to the demographic crisis is to bring many more women into the workplace. That's why S in ESG. It's a major problem, but very controversial. George, I'm going to kick you this. How to GPIF... How does this affect Mizuno and his team? Are these the companies they want to invest in? Are they asset managers they work with? What is their approach to this? George Serafeim: So you ask what are the tools of influence? There are several of them. One of them is, for example, index construction and construction of new indices. Why this can be especially useful in certain cases is because in fact you isolate companies that ultimately are not included in these indices. For example, they built one index that is around women specifically, on the issue of diversity that Rebecca mentioned. In this index it happens that companies that do not have procedures for inclusion in their women's workforce and diversity do not get included in their stock market index. This has actually driven change within some companies. It's complicated why. Some people might argue that this is because they are ashamed not to be included in the index. Some other people might argue that because if enough investors want an index, and they don't invest in those companies, they could increase the cost of capital for companies eventually and so on. So there are several mechanisms. It's not clear which one is operating, but one of the things we found in the case of talking to some companies was that it was clear that it was putting pressure on and was motivating companies to start changing practices and take that into account. Another component was actually pushing asset managers to actively collaborate with the companies they invest in. So, don't avoid them, but invest in those that want to drive change and then engage with the company to drive change on some of these issues. And that's different than it was in the past. And that's different. And that's different, and I think it's actually different for a lot of asset managers. Really where it gets really interesting for is, How do you think the involvement from the perspective of a passive manager? You can have really active managers doing research and actively choosing stocks and so on, and they understand the company because they are in an active management space. But how do you motivate really passive managers who build indices to engage with companies? Because they don't do research, they don't understand deeply any society. They also have very very low fees. To give you the feeling of Brian, an active manager might still be an example of eighty basis points or one percent as a management fee expense ratio for this fund, but a passive manager could still be ten basis points or five basis points. What is a really business model? How do you compensate people for working with companies? Brian Kenny: How do they deal with it? That sounds like a huge problem. George Serafeim: It's a huge problem, and that's where it gets really animated in class as well. I can tell you that. When we ask students: What is the business model? Suggest me the contents. What happens is that Hiro really pushed asset managers, and especially passive asset managers, to come up with a contract, they came up with a solution. There has been a lot of push back from asset managers saying, Hiro you are destroying our business model. We don't understand why you're doing this. We don't understand how to do that. I think Hiro correctly responded by saying, I'm a customer. You have to figure it out with a business model and a contract. At the end of the case, it happened that three different asset managers returned with three different models of involvement and, as a result, tying fees to the results of these engagements or the activities of those engagements. This is a really interesting decision point for the case as well, which is how are you thinking about drafting this contract? Do you think, for example, that this treaty must be designed around inputs or around results? Brian Kenny: The more we hear about this Rebecca, the more it sounds like the incredibly complex thing that gpif is trying to make happen. Sounds like a movement more than just like hey we're going to try a new approach here. Are they really trying to move the whole market with them? Is that what Hir's goal is? Clearly. It tries to move all the other large asset owners to focus on the same set of problems. That's one of the reasons I love this case. Because sometimes when people talk about corporate social responsibility or shared value it sounds like it's really easy and yes, you just make money and you change the world at the same time. What I love about this case is that we have a protagonist who is absolutely trying to change the world. He's still on planes. Says. It has enormous weight because it manages $1.6 trillion. He's got a lever. Rebecca Henderson: in the world returns my calls. He's really trying to demonstrate a new way of thinking about investing, and he hopes to have a fire over other asset owners who have similar properties. This is a question for one of you. How does this tie back to the course that you teach, reimagining capitalism and some of the ideas? Is this kind of central idea behind some of the course? George Serafeim: It's one of the ideas I would consider. The way to understand the course is really trying to go through different units of analysis for students. One of them is at an individual fixed level. What can you do as a company? There we do a lot of examples of doing well by doing well. We are making innovations in business modelling; to practise innovation; change actually your processes, your business model, your product; and restoring a good social outcome while earning more money. But what we always say is that it's not enough. Why? Because basically every business will deal up to a point that makes sense, economic sense, in terms of roi. So you could find an electric utility company that will go five percent renewable, but not fifty percent renewable, right? Correctly. George Serafeim: And also, you can find cases where they deal only with issues that make sense from a ROI perspective. Then when we ask about what can really move the system, then we need to start getting around some of these free-rider issues and around some of those tragedies of common problems. So we're trying to elevate analytical units a lot more to market level. Then we find some of those institutions that really are... Their interests are in line with the overall interest of the market and not with the individual company. I think it is an example of this case, it is an example of this kind of point that in society we really have institutions that take all these externalities into account and internalise them as we do. I mean, and I'm going to go out on a limb a little bit and say that like all of us, eventually as retirees for example, we invest our money where we're interested in sixty-year results, fifty-year results, forty-year results. As a result, many of these issues of inclusiveness, climate change, good governance and strong market institutions are things that define long-term economic outcomes for each country and, as a result, our own prosperity. Brian Kenny: So, short-termism is a problem that we need to overcome to allow these kinds of ideas to really take root? I think there are two problems. One is the time horizon and the other is collective action. Because, while I might really care if climate change changes the planet when I stop flying and stop eating meat, but everyone else keeps it right away using fossil fuels and I don't care, my actions won't make any difference. So I need to focus on the long term and find a way to We're all moving in together. What's interesting about the GPIF case is Hiro has both a very long term horizon, he's on the hook for pensions for the next hundred years, and he has a way of bring them all together. Since it owns so much of the market, it's... You know, if it acts, it really makes a difference, and it increases the chances that everyone else will act. BRIAN KENNY: The impact of change at market level is really key. At institutional level. It may seem like a kind of intimidating word, but if you think one of the problems that we have in capitalism as a whole is that we're really focused on me right now, and now we have serious long-term problems and us problems. We don't think about collective goods. How do people historically solve this kind of problem? Well, through the families. You know, we spend a lot of time learning our two-year-old age, No, you have to look at it long term, and it's not just about you. Local communities and religious traditions and governments and all these institutions are now under great stress. So, one of the big questions in the course is can a business step and kind of help support or grow new institutions that could help us focus on the long-term and on the collective good? Brian Kenny: So back to GPIF specifically that I had some time to try. How does it work? So far, so good. I think Hiro would be the first to say that it's a job in the process, but we certainly see a very significant percentage of Japanese companies changing their behavior. As George suggested, being omitted from the index, it sort of makes everyone a little nervous, so a lot of companies are changing their behavior. Asset managers have gone from you've got to make fun of the good, you're really serious, and so many are starting to develop the skills to engage with companies. I think it's very encouraging, and I think just the fact that the GPIF is making so much progress has effects around the world. I hear about what GPIF does when I talk to other major asset managers around the world. George, I'll give you the last word. You've already taught this case in class. You mentioned some turning points in the classroom. Any big surprises you've heard from people? Any students from Japan who had a unique perspective to share? GEORGE SERAFEIM: What's really interesting about Brian's case is that most students aren't used to thinking about the institutional level. They're very good at thinking about individual companies and developing strategies about individual companies, but developing an understanding of how to move the system and developing systems of thought is something for many of them actually, it's a new perspective. For example, the way incentives are changed from asset monitors is becoming really important. How you build these indices becomes really important. How to engage with companies and the depth of dialogues You are becoming really important to get the results you want and not perverse incentives in the system and unwanted results, and then how do you think about some of these efforts. How do you bring other pension funds and other asset owners to the table? This becomes a really interesting exercise in the classroom. REBECCA HENDERSON: Could I add one thought to it? I'm beg you. Rebecca Henderson: I asked the students in my class which case and which protagonist they liked best, and Hiro did the huge honor of flying to Boston to be in our classroom when we were teaching this case. He was hands down favorite protagonist students. I asked them why and they said two things. They said, Well, he's amazing, and the second thing they said was, And this could really work. Brian Kenny: He could be a harbinger of something new. That's right. Brian Kenny: Thank you both so much. It's been a pleasure. It's been a great pleasure. Thanks. Brian Kenny: If you like Cold Call, you should check out other podcasts from Harvard Business School, including After Hours, Sky Deck, and Future Management Work. You can find them on Apple podcasts or where you'll ever listen. Thanks again for joining us. I'm your host, Brian Kenny, and you've listened to Cold Call, the official podcast Harvard Business School brings you the HBR Gifts Network. Network.