

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Tuesday, 22 March 2016
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	Chief Executive

### EXECUTIVE SUMMARY

An investment and funding update is on each quarterly Committee agenda and includes a number of investment and funding items for information or discussion. The items for this quarter are:

- (a) The Business Plan 2015/16 update is attached as appendix 1. In the main, the plan has been completed for the year 2015/16. The outstanding task is the review of Additional Voluntary Contributions (AVC's) for which there is a recommendation to defer to 2016/17.
- (b) Current Developments and News – This includes a brief update on Working Together in Wales and also revisions to the guidance from CIPFA relating to disclosure of management expenses within Pension Fund accounts. News and development are currently being dominated by the Pooling debate across the LGPS which is being covered verbally as agenda item 8.
- (c) Funding & investment related policy/strategy implementation and monitoring – This section highlights the update to the Fund's Statement of Investment Principles and the amendment to the categorisation of Private Equity to Private Equity / Debt to provide a more accurate description.
- (d) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

### RECOMMENDATIONS

1	That the Committee approve the following: <ul style="list-style-type: none"> <li>• Deferment of the review of Additional Voluntary Contributions (AVC) to 2016/17</li> <li>• Reclassification of Private Equity Investments to Private Equity/ Debt within the Statement of Investment Principles (SIP)</li> </ul>
2	That the Committee consider and note the remainder of the update and provide any comments.

## REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Business Plan Update</b></p> <p>Appendix 1 provides a summary of progress against the investment and funding section of the Business Plan up to the end of quarter 4 to 31 March 2016). The majority of items are as originally planned but the Committee is asked to note the following:</p> <ul style="list-style-type: none"><li>• The review of AVC's to be deferred and included in the 2016/17 Business Plan. This has been required as the resources for the review were not available during 2015/16. This was discussed and agreed at Advisory Panel (AP) in February 2016.</li><li>• A verbal update of FI 16 and FI 17, the ongoing collaboration across the Welsh Funds has been provided in agenda 7 of the Committee.</li></ul>
1.02	<p><b>Current Developments and News</b></p> <p><b>LGPS Pooling of Investments.</b></p> <p>A verbal update of the DCLG Consultation on Pooled Investments has been provided as part of agenda 7 of this Committee.</p>
1.03	<p><b>Working Together in Wales</b></p> <p>A verbal update for the Working Together in Wales project and the search for a single passive manager in Wales has been included as part of agenda item 7 of this Committee but in summary:</p> <p>In December 2015, Gwynedd Pension Fund led the procurement for a Consultant to run the process for the appointment of a third party operator to provide an appropriate infrastructure for collective investments across the 8 Welsh Funds. All 8 Welsh Funds were involved in the selection process to which Hymans Robertson were appointed in January 2016.</p> <p>Initial work on the project commenced in January when the 8 Funds were asked to provide data to Hymans Robertson who have subsequently produced the joint Welsh submission to the DCLG Consultation on Asset Pooling.</p>
1.04	<p>Simultaneously in December 2015, the Clwyd Pension Fund led the procurement for a Consultant to conduct a search for a single passive manager for the 8 Welsh Funds. All 8 Funds were involved in appointing Aon Hewitt to carry out the procurement exercise.</p> <p>A short list of managers was agreed with the Funds on 11<sup>th</sup> March 2016 and those managers were invited to present to all the Funds in Cardiff on 16<sup>th</sup> March 2016. The appointment of the successful manager is expected to be announced by 31<sup>st</sup> March 2016.</p>

1.05	<p><b>Annual Accounts and Investment Costs</b></p> <p>As reported in the November Committee, CIPFA had produced guidance for Funds to disclose all the levels of fees within Fund accounts. These included the fees relating to the underlying investments for managers invested with Fund of Fund managers. For the Clwyd Fund, these included Hedge Fund and Private Equity managers.</p> <p>After further consultation, CIPFA have issued revised guidance and recommendations that as the underlying fees are not under the control of the Pension Funds, these should not be reflected in the accounts.</p> <p>To be consistent with other Funds, the Clwyd Pension Fund will adhere to the revised guidance from CIPFA, but will still be collecting this information and disclosing in the Fund Annual Report.</p> <p>In 2014/15, the Clwyd Fund reported Fund Management fees totalling £16.127m which were further detailed as follows:</p> <table data-bbox="300 779 1220 940"> <tr> <td>Annual Management Charge including expenses</td> <td>£10.230m</td> </tr> <tr> <td>Underlying Fees for Fund of Fund managers</td> <td>£ 1.891m</td> </tr> <tr> <td>Performance Fees</td> <td>£ 2.479m</td> </tr> <tr> <td>Transaction Fees</td> <td>£ 1.527m</td> </tr> </table> <p>Under the revised guidance, for 2014/15, the fund management fees would have been reported as £14.236 m</p>	Annual Management Charge including expenses	£10.230m	Underlying Fees for Fund of Fund managers	£ 1.891m	Performance Fees	£ 2.479m	Transaction Fees	£ 1.527m
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1.06	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p>Funding Strategy Statement – A separate report on Funding and Flight-Path provides an update on the progress against the Fund’s Funding Strategy Statement objectives.</p>								
1.07	<p>Statement of Investment Principles – There is a separate report that monitors our progress against the Fund’s Investment Strategy objectives. This document is reviewed every 6 months. The only minor change which has been applied is the reclassification of Private Equity Investments to Private Equity / Debt as the Fund explores more opportunities in this area.</p> <p>Private Debt is the provision of finance to a range of investments including direct lending, trade finance, mezzanine and distressed debt. Private finance is the debt equivalent of private equity as institutions provide capital finance and loans to private companies when banks are unable to lend to them.</p> <p>Previously, the Fund has only accessed Debt Funds if they satisfied the higher returns expected in the Opportunistic allocation of Private Equity such as the Carlyle Energy Mezzanine Opportunity Fund.</p> <p>There are other growing opportunities in Private Debt as this is replacing finance from banks. This offers steady returns and diversification of risk which the Fund.</p> <p>The SIP will be replaced by with an Investment Strategy Statement (ISS) in 2016/17. A workshop has been arranged for July 2016 to provide Members with further information relating to the new document.</p>								

	<b>Delegated Responsibilities</b>
1.08	<p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting.</p> <p>To summarise:</p> <ul style="list-style-type: none"> <li>• There is sufficient liquidity to meet short term requirements.</li> <li>• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).</li> <li>• The Fund's strategic allocation is within the SIP ranges.</li> <li>• Within the "In House" portfolio, 11 commitments have been made totalling a sterling equivalent of £68 million. All these commitments follow the strategy agreed by the AP for these asset classes.</li> <li>• There are no significant matters to bring to the attention of the Committee as a result of the Fund Manager monitoring meetings.</li> </ul>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The Fund will consider many risks as part of its Funding and Investment strategies, some of which are covered in specific agenda items. The key risks considered in this report include cash flows and the inability to meet payments due from the Fund, the risk of managers not meeting targets expected thus leading to lower valuations. Investment risk is considered when conducting appropriate due diligence on potential investments. Legislative risk is considered in preparing and considering changes which affect the accounts.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - 2015/16 Business plan update Appendix 2 - Delegated responsibilities

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Report to Pension Fund Committee – Business Plan 2015/6 to 2017/18 – 24 March 2015.  Report to Pension Fund Committee – Statement of Investment Principles – 21 May 2015  CIPFA – Example Accounts and Disclosure Checklist.</p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>TAAG – Tactical Asset Allocation Group</b> – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.</p> <p>(e) <b>AP – Advisory Panel</b> – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.</p> <p>(f) <b>PERAG – Private Equity and Real Asset Group</b> – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund’s Investment Consultant and monitored by AP.</p> <p>(g) <b>In House Investments</b> – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.</p>

- (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation.
- (l) **AVC – Additional Voluntary Contribution** – LGPS regulations require Local Authority Pension Funds to provide members with access to AVC schemes. These schemes allow members to make additional contributions, over and above their normal employee contribution, which is invested and can be used to purchase additional benefits upon retirement.
- (m) **Private Equity** – a source of investment capital from high net worth individuals and institutions for the purpose of investing and acquiring equity ownership in companies not listed on any public stock exchange. Partners at Private Equity firms raise funds and manage these monies to yield favourable returns for their shareholders, typically with an investment horizon between four and seven years.
- (n) **Private Debt** – the provision of finance to a range of investments including direct lending, trade finance, mezzanine and distressed debt. Private finance is the debt equivalent of private equity as institutions provide capital finance and loans to private companies when banks are unable to lend to them.
- (o) A full glossary of Investments terms can be accessed via the following link.  
<http://www.fandc.com/uk/private-investors/tools/glossary/>