

## CLWYD PENSION FUND COMMITTEE

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

### EXECUTIVE SUMMARY

The purpose of the report is to provide an update on the funding position as at 29 February 2016 and an overview of the hedging implemented to date. The report makes recommendations to review the progress to date as detailed below.

Members should note the following key items:

- The funding position is now around 10% behind the expected position meaning action is required. This will be discussed as part of the 2016 Actuarial Valuation of the Fund.
- The Funds deficit would have been around £80m higher if the hedging strategy had not been implemented.
- The level of hedging at 29<sup>th</sup> February 2016 was around 20% for interest rate and 40% for inflation. The level of hedging remained the same over the month as no triggers have been breached. This is as expected but will need to be reviewed as part of the discussions regarding the Actuarial Valuation. This process is included in 2016/17 Business Plan.
- Insight are operating the liability hedging mandate in line with the tolerances set by our advisors.

### RECOMMENDATIONS

1	Action required to review the funding framework (including overall return expectations) as part of the 2016 Actuarial Valuation of the Fund.
2	Review flightpath and liability hedging strategy in conjunction with the Actuarial Valuation which is included in 2016/17 Business Plan.

## **REPORT DETAILS**

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	The monthly summary report from Mercer on the funding position and an overview liability hedging mandate is attached as at 29 February 2016. It includes a “traffic light” of the key components of the Flightpath and hedging mandate with Insight.
1.02	The estimated funding position as at 29 <sup>th</sup> February is 60% with an estimated deficit of £886m, which is around 10% behind expectations. No triggers have been hit since inception and the funding position is now behind the expected recovery plan set in 2013 as a result of the recent changes in market conditions – in particular asset falls due to market uncertainty. The current funding position has been given a “red” rating meaning action is required.
1.03	We are recommending that the funding framework is reviewed as part of the 2016 Actuarial Valuation including the overall expected return assumption vs. the 2013 Actuarial Valuation. This could improve the funding level whilst retaining the same level of prudence in the long term funding target. This will need to be integrated with both the liability hedging strategy and flightpath.
1.04	The level of hedging at 29 <sup>th</sup> February was around 20% for interest rate and 40% for inflation. The hedging implemented over 2014 and 2015 has provided some protection to the funding position against the changes in interest interests and inflation. In particular, without this hedging the deficit would have been approx. £80m higher since inception than if the original strategy had remained in place when measured on a like for like basis.
1.05	Based on data from Insight, the analysis shows that the management of the Insight mandate is rated as “green” meaning it is operating in line within the tolerances set by our advisors.
1.06	Given the current funding position we are recommending we will be proceeding with the healthcheck in conjunction with the Actuarial Valuation.
<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report. Officers will be heavily involved in the review of the funding framework.

<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 risk being managed here are the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - Overview of risk management framework – February 2016

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview.</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>
	<p>(a) <b>CPF or the Fund – 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>LGPS – Local Government Pension Scheme</b>  The national scheme, which Clwyd Pension Fund is part of</p> <p>(c) <b>SIP – Statement of Investment Principles</b>  The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund</p> <p>(d) <b>Flightpath</b>  A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so whilst still expecting to achieve the overall funding target.</p>

(e) **Deficit**

The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.

(f) **Funding level**

The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

(g) **Hedging**

A strategy that aims to reduce funding volatility. This is achieved by investing in assets that mimic changes in liability values due to changes in market conditions.

(h) **Insight QIF – Insight Qualified Investor Fund**

An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.

(i) **Actuarial Valuation**

The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.