

**DELEGATED RESPONSIBILITIES**

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.051	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

**Rebalancing Asset Allocation****Background**

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Clwyd Pension Manager who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

**Action Taken**

In the quarter to September 2017, there were no rebalancing or transition of assets.

**Cash Management****Background**

The Pension Finance Manager forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored and revised quarterly. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

**Action Taken**

The cash balance as at 30<sup>th</sup> September 2017 was £43.4m (£56.7m at 30<sup>th</sup> June 2017). Cash balance as at October 31<sup>st</sup> 2017 was £34.0m. The higher than normal movement between September and October included a drawdown of £6.5m to our European Private Debt manager which has been included in our cash flow projections. The cash flow has been monitored to ensure there is sufficient monies to pay benefits and capital calls for investments.

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.052	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

### **Background**

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the 'Best Ideas' portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund (increased from 9% at the last strategic review). The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

### **Action Taken**

Since the previous Committee the following transactions were agreed within the portfolio:

- Part redemption of BlackRock Emerging Market Equities - £7.0m (crystallised +12.9%)
- Part redemption of Investec Global Natural Resources Fund - £5.0m (crystallised +40.5%)
- Additional investment of £7.0m in BlackRock European Equity (Hedged)
- Additional investment of £2.5m in LGIM Global Real Estate Equity
- Additional invest £2.5m in LGIM Infrastructure MFG (Hedged)

The current allocations within the portfolio following the transactions are:

- US Equities (2.7%)
- Equity Linked Bonds (0.6%)
- Emerging Market Equities (2.7%)
- European Equities (1.2%)
- Emerging Market Debt (1.1%)
- Commodities (1.1%)
- Real Estate (0.8%)
- Infrastructure (0.8%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Clwyd Pension Fund Manager and decisions made under this delegation have been circulated to the Advisory Panel.

As at the end of September 2017, the Best Ideas portfolio has both outperformed its target since inception by 3.6% and added value to the investment return at total Fund level.

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.053	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

### **Background**

The Fund's investment strategy includes a 22% asset allocation to private equity (10%), property (4%), infrastructure (7%) and agriculture (1%). The last strategic investment review reduced the property allocation by 3% and increased the infrastructure allocation by 3%. Given the illiquid nature of these investments this transition will take a number of years to implement. These are higher risk investments, usually in limited partnerships, hence small commitments are made of £8m in each. Across these asset categories there are currently 50 investment managers, investing in 115 limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made.

A review was undertaken of the existing portfolio and future cash flows and the results were incorporated into the forward work plan. As a result, extensive work has been carried out to identify suitable Infrastructure investments. Several commitments have already been agreed and further due diligence is still being undertaken on other possible opportunities. It is anticipated that an allocation of 7% to Infrastructure will be achievable by 2020. Within the remaining In House portfolio, officers are continuing to look at any opportunities which fulfil their agreed strategy. The minutes of the PERAG Group are circulated to the Advisory Panel

### **Action Taken**

Due diligence has been undertaken on one Infrastructure investment and the following commitment has been made under delegated authority since the last Committee:

- €10 million to BaseCamp European Student Property Fund II (European Infrastructure Fund targeting 15 - 18% Net IRR)

BaseCamp is a new manager appointed to the increasing Infrastructure allocation. To assist with the governance of the in house portfolio, the Funds aim is not to increase the number of fund manager relationships already in place unless absolutely necessary but in this case, this is a very specific area hence it was decided to appoint to a new manager.

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.054	Selection, appointment and dismissal of Fund Managers	PFM, CFM and CEO (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.

### **Background**

On occasion, as a result of changes to the Fund's investment strategy or persistent poor performance by a fund manager, changes are required. The Committee delegate these changes to officers having regard to advice from the Investment Consultant and only ratify the process. In the longer term fund manager selection and dismissal will be the responsibility of the Wales Pool.

### **Action taken**

The strategy changes agreed by Committee as a result of the "light touch" strategic review included a 3% allocation to Private Credit and 4% allocation to Smart Beta within the global equity allocation.

For Private Credit the search for one or more managers began in March 2017. As reported to the Committee in June, Permira, a European Private Credit manager, were awarded a £30m mandate.

The search for a North American Private Credit manager commenced in June and a selection of managers were invited to submit their suitability for the specific mandate agreed with the Fund and its Investment Consultant, JLT. 12 managers responded to the search and a short list of 4 managers were been agreed to take through to the next stage of the process.

Due diligence meetings were held with the short listed manager, JLT and the Pension Finance Manager on 4<sup>th</sup> October 2017 where the recommendation to award a mandate of \$27m (£20m) to BlackRock was made. This appointment had previously been fully delegated to officers.

The Committee has previously agreed that the implementation of the new smart beta asset allocation (4% of the Fund) will be done via Blackrock as part of the Welsh Pension Partnership arrangements for this asset class. All required documentation has now been finalised and the transition of £70m from the Investec Global Equity mandate to the BlackRock mandate was completed on 15<sup>th</sup> November 2017.