

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 28 <sup>th</sup> November 2018
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	Pension Finance Manager

### 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 2018/19 update for quarter 2 (July to September 2018) is attached as Appendix 1. There are three tasks relating to this quarter, Asset Pooling (progressing on target), Interim Funding Review (on target) and Employer Risk Management Framework (on target)
- (b) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which has been covered in agenda item 4.
- (c) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.
- (d) An update on the Funding Strategy Statement consultation. This was carried out due to the updates needed due to the introduction to the possibility of exit credits under the LGPS Amendment Regulations 2018, and also the work undertaken by the Fund in adopting equity protection strategies. A “tracked changes” version of the updated Funding Strategy Statement is attached at Appendix 4.
- (e) An update on the findings and outcomes of the 2018 Funding Review – the slides that were presented to employers at the AJCM are attached at Appendix 5.
- (f) An annual update on the AVC arrangements following a review carried out by Mercer performed in 2017.

## RECOMMENDATIONS

1	That the Committee consider and note the update for delegated responsibilities and provide any comments.
2	The Committee review and approve the changes made to the FSS following the consultation performed as required by the LGPS regulations.
3	The Committee receive and note the findings and outcomes of the 2018 Funding Review as performed by the Fund Actuary.

## REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
	<b>Business Plan Update</b>
1.01	<p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plan up to the end of quarter 2 to 30 September 2018.</p> <p>The three projects are on target.</p>
1.02	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p>The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, JLT which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the JLT report included in agenda item 10.</p> <p>The Advisory Panel also receive reports from the following groups:</p> <ul style="list-style-type: none"><li>• Tactical Asset Allocation Group (TAAG)</li><li>• Funding and Risk Management Group (FRMG)</li><li>• Private Equity and Real Assets Group (PERAG)</li></ul> <p>Any delegations arising from these meetings are detailed in Appendix 2.</p>
1.03	<p><b>AVC Annual Update</b></p> <p>It was agreed that Mercer would provide an annual update on the AVC arrangements following the review carried out in 2017.</p> <p>In the 2017 Review, Mercer made a number of recommendations which have been actioned.</p> <ul style="list-style-type: none"><li>- Lifestyling options offered by Prudential have been updated. The previous options have now been closed, and been replaced by two of Prudential's Dynamic Growth strategies; one targeting retirement options for those unsure how to use the proceeds, and the other targeting 100% cash</li><li>- There is no longer a default fund for future new contributors. A</li></ul>

	<p>positive investment choice is now required from members</p> <ul style="list-style-type: none"> <li>- Prudential have sought to contact AVC members to remind them of the options available across a range of investment strategies.</li> </ul> <p>The annual monitoring update found that:</p> <ul style="list-style-type: none"> <li>- Unit-linked investments performed well over year to 31 March 2018</li> <li>- Prudential has reduced its Annual Management Charge / total charges for unit-linked funds by broadly 0.1% p.a. in most cases, and overall remain broadly competitive in the market</li> <li>- Underlying investment performance of the With-Profits funds has continued to be good compared to other With-Profits funds</li> <li>- Prudential are ceasing to provide its member presentation and individual meeting service. The client management function will continue to support on governance reporting. There was a presentation by Prudential at the Annual Employer Meeting earlier in November.</li> </ul> <p>Further details are provided in a recently received report by Mercer (Appendix 6) which include other areas which will be considered by the Advisory Panel.</p>
1.04	<p><b>Funding Strategy Statement Consultation</b></p> <p>As discussed at the June Committee meeting, the Local Government Pension Scheme (Amendment) Regulations 2018 were laid before Parliament on 19th April 2018. They covered a number of issues, in particular, the introduction of “exit credits”.</p> <p>This applies when an employer exits the Fund and, based on an actuarial assessment at that exit date, there is a surplus of assets in excess of the liabilities. Historically any surplus would be subsumed by the guarantor (or the whole Fund if no guarantor exists) as the Fund was not permitted to refund a surplus to an employer under the Regulations. This Regulation change now requires the Fund to pay the surplus directly to the exiting employer within 3 months of their exit.</p> <p>Given the significance of the change, it was agreed that the Fund should review its Funding Strategy Statement and associated policies (in particular the termination policy) to ensure that they allow sufficiently for the introduction of exit credits.</p> <p>The Funding Strategy Statement was therefore reviewed and changes were proposed (the updated version is included at Appendix 4). A consultation process commenced with all interested parties (as required by the LGPS Regulations) and this was completed on 21 September 2018. During this time, whilst the Fund did not receive any feedback from employers, additional meetings with some employers have taken place on exit credits.</p> <p>The update to the Funding Strategy Statement also incorporated details about the Flightpath strategy (Section 9) changes made; in particular, the adoption of a dynamic Equity Protection strategy on 24 May 2018. This replaced the previous “static” strategy after rigour analysis and value for</p>

	<p>money considerations by the FRMG.</p> <p>Members are now asked to review and approve the revised FSS.</p>
1.05	<p><b>2018 Interim Funding Review</b></p> <p>The 2018 interim funding review commenced during Quarter 2. The funding review itself excluded any allowance for the impact of Scheme improvements costing c0.5% of pay expected from the cost management process and also the recent High Court Judgment on GMP Equalisation. More detail on these is in the separate LGPS current issues report.</p> <p>The Actuary performed initial modelling of the expected return over CPI inflation when compared to the previous valuation. This modelling showed that the discount rates used at the 2016 valuation (CPI plus 2% for past service (assessment of the funding level) and CPI plus 2.75% for future service which is used to assess the ongoing cost of benefit accrual for current employees) were no longer appropriate.</p> <p>Based on the analysis performed, the Actuary concluded that the assumptions appropriate for the funding review were CPI plus 1.75% for past service and CPI plus 2.25% for future service. Updates were also made to mortality assumptions allowing for the slowdown in improvement in longevity compared to previous estimates. A critical aspect of this was that the discount rate was adjusted to reflect the level of risk being controlled by the Flightpath strategy. All things being equal this reduced the deficit and increased the funding level assessed.</p> <p>The initial results for the whole Fund and the major employers were communicated to Fund officers on 28th September 2018. A Steering Group Meeting for the Finance Directors of the three Unitary Authorities also took place on 3rd October 2018. The headline results were then communicated to the remaining employers at the Annual Joint Consultative Meeting on 6th November 2018.</p> <p>The slides presented to the employers are attached as Appendix 5. Employers were informed that the change in their own results may vary significantly from that of the whole Fund. This is because the membership profile can have a significant impact on individual results, particularly for some of the smaller employers where experience effects can be more volatile.</p> <p>A summary of the whole Fund results is set out below (the 2016 valuation results are also shown for comparison purposes):</p>

		<b>31 March 2016 Valuation</b>	<b>31 March 2018 (allowing for updated return outlook and updated mortality assumptions)</b>
	Assets	£1,381m	£1,785m
	Liabilities	£1,818m	£2,026m
	Deficit	£437m	£240m
	Funding Level	76%	88%
	Future Service Rate	15.3% of pay	18.0% of pay
	<p>The results shown are a snapshot at that point in time. Employers were also informed of the updated position at September 2018 (the deficit had further reduced to £167m with an increased funding level at 92%). This meant that at a total Fund level the overall contributions (deficit and ongoing future service costs combined) would be reducing which was a positive outcome.</p> <p>However, since September the funding position has moved back to broadly the March position (when measured consistently) due to the recent volatility in the markets.</p> <p>The separate 'Funding and Flightpath Update' (Agenda item 11) will provide further information on the Fund's current position and the outlook going forwards. The position will be reviewed as part of the actuarial valuation as it is important that we get a balanced outcome in terms of affordable employer contributions and the financial health of the Fund.</p>		
1.06	<p><b>Delegated Responsibilities</b></p> <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 but this needs to be monitored closely over the next few months.</li> <li>• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).</li> <li>• Within the "In House" portfolio, 1 commitment has been made in the Private Equity portfolio which follows the strategy agreed by the Advisory Panel for this asset class. The appointed Manager, Development Bank of Wales, presented to the AJCM earlier in November.</li> </ul>		

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The AVC arrangement will continue to be kept under annual review (in terms of performance of funds), as per the original recommendations by Mercer. In particular, dialogue and feedback will be sought from members and employers following the cessation of the member/employer support services previously offered. In addition to this, Fund Officers will continue to meet and have dialogue with the Prudential Client Managers in respect of the arrangements.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	No further consultations will be needed directly as a result of this report. However, further dialogue will take place between stakeholders as the 31 March 2019 actuarial valuation approaches. An Employer consultation was carried out as part of the update to the Funding Strategy Statement (as required by the LGPS Regulations), although no responses from interested parties were received

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Appendix 3 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	Five of the eight risks are currently at their overall target risk albeit the individual current impact or likelihood risk may be slightly higher than target. Of the remaining three risks in Investments and Funding, one is substantially different to the target risk, F6 with the other two being just one step away from their targets.  Risk F6 remains the only risk with a significant likelihood and this relates to matters related to Pooling and Brexit. We have now removed MiFID II as a risk.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - 2018/19 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding Appendix 4 – Funding Strategy Statement Appendix 5 – Interim Funding Review Slides Appendix 6 – Summary paper of the 2018 AVC Review Update

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None <b>Contact Officer:</b> Debbie Fielder, Pension Finance Manager <b>Telephone:</b> 01352 702259 <b>E-mail:</b> debbie.a.fielder@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>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>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>The Committee - 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> <p>(h) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(i) <b>ISS – Investment Strategy Statement</b> – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.</p> <p>(j) <b>FSS – Funding Strategy Statement</b> – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(k) <b>Funding &amp; Risk Management Group (FRMG)</b> - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager,</p>

Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.

(l) **GMP – Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

(m) A full glossary of Investments terms can be accessed via the following link.

<http://www.fandc.com/uk/private-investors/tools/glossary/>