

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 11 th February 2020
Report Subject	Investment Strategy Statement
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

At the meeting of the Committee in November 2019 the revised investment strategy was agreed, subject to consultation with the Fund's Employers. This consultation has now concluded, and therefore the final element of implementing the new Strategy is to revise and publish the Fund's Investment Strategy Statement (ISS).

The LGPS Investment Regulations include a requirement to produce, and maintain an ISS. The Fund's first ISS was produced in 2017, and revised in 2018. In conjunction with the review of the investment strategy it is now appropriate to review and update.

The revised ISS is attached as an Appendix to this report, and has been updated in a number of areas:

- Funding Principles – to reflect the updated position from the 2019 Actuarial Valuation.
- New Strategic Asset Allocation – as agreed by the Committee in November 2019.
- Approach to Risk Management – to reflect activity in the renamed Cash and Risk Management Framework.
- Responsible Investment Policy – updated policy agreed by the Committee in November 2019.

These changes will be explained in more detail at the meeting, and there will also be a brief training session to remind the Committee of the requirement to produce an ISS.

RECOMMENDATIONS

1	The Committee note, comment on and approve the revised Investment Strategy Statement.
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REPORT DETAILS

1.00	2019/20 Review of Investment Strategy and Investment Strategy Statement
1.01	<p>The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish an Investment Strategy Statement (ISS). The Regulations and accompanying guidance required that Administering Authorities prepared and published their first ISS by 1 April 2017. After this, the requirement is that the ISS is regularly reviewed and updated from time to time; at least every three years.</p> <p>The Clwyd Fund produced and published its first ISS in 2017, and revised in 2018. Given the changes to the Investment Strategy and Responsible Investment Policy agreed by the Committee in November 2019, it is now necessary to revise the ISS.</p> <p>The updated ISS is attached as an appendix to this report and the key changes are highlighted in the following paragraphs. To support the revised document, the Committee will receive a brief training session at the meeting, which will cover the requirements to produce an ISS and also explain the changes.</p> <p>The Fund's overall Funding and Investments aims are reported on Page 4 of the ISS, and have been updated to include the addition of the Pooling objective. These objectives effectively set the scene for the Fund's investment strategy, and Responsible Investment beliefs.</p> <p>The Funding Principles on pages 5 and 6 of the ISS reflect the updated position of the Fund after the 2019 Actuarial Valuation. As the Committee will be aware, the results of the Actuarial Valuation, in particular the required investment returns (future service discount rate), drive the review of the Investment Strategy.</p> <p>Following the funding position, the ISS explains the process of reviewing the investment strategy and the resultant strategic asset allocation. This revised Strategy was presented to, and agreed by, the Committee in November 2019. The new strategy is detailed on Pages 10 of the ISS, and the key changes are:</p> <ul style="list-style-type: none">• Dis-invest from Diversified Growth Funds due to overall diversification of the Fund leading to less compelling case to hold;• Increase physical listed equity allocations in developed and Emerging Markets;• New Sustainable equity allocation to support RI Policy;• Restructure existing Hedge Funds allocation;• Create new explicit Local/Impact portfolio in Private Markets portfolio.• Establishment of the Cash and Risk Management Framework <p>On page 12 the table shows the agreed strategic asset allocation and the ranges around the target weights. These ranges are designed to ensure the strategic weights do not drift to far from their target, but allow some</p>

	<p>flexibility to ensure that the Fund is not needing to continually re-balance the portfolio which would not be cost effective.</p> <p>The LGPS Regulations require that the ISS explains the Fund’s approach to risk management. As the Committee will be aware this is an area that the Fund takes very seriously, and the ISS has been updated to reflect a number of activities that have taken place within the Cash and Risk Management Framework. This is covered on pages 14 and 15.</p> <p>The final section which has seen significant change starts on page 23, and is the Fund’s new Responsible Investment (RI) Policy. The policy was agreed in November and is now included within the ISS as was its predecessor, the Sustainability Policy. As the Committee will recall the RI Policy includes a number of areas including pooling, stewardship and engagement and reporting and disclosure. The Policy also includes the Fund’s approach to Climate Change.</p> <p>The Fund has identified 5 key Strategic RI priorities that will focus its work over the next 3 years (2020-2023), and these are reported on pages 26 and 27.</p> <p>The Committee will recall that the agreement and subsequent publication of the ISS is the final element in the review of the Fund’s Investment Strategy, and the new strategic asset allocation take effect from 1 April 2020. The officers have already started work with advisers to implement the new strategy in a timely way.</p>
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2.00	RESOURCE IMPLICATIONS
2.01	There will be a cost of transitioning to the new Investment Strategy, and officers are working with advisers to ensure that this is done in the most cost effective way.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	The Administering Authority consulted with employing bodies over the development of the Investment Strategy and Responsible Investment Policy in December 2019, and January 2020.

4.00	RISK MANAGEMENT
4.01	<p>This report addresses some of the risks identified in the Fund’s Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Funding and Investment risks: F3, F6, F8 and F9.
4.02	The review of the Fund’s Investment Strategy aims to achieve the requisite level of investment return to meet the Actuarial requirements, whilst at all times managing the levels of risk effectively.

	The ISS covers this in some detail, and highlights the focus that the Fund places on risk within the Cash and Risk Management Framework.
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5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy Statement

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>1. Current ISS. 2. Committee reports on the review of the Investment Strategy in November 2019. 3. Training sessions on setting Investment Strategy and Responsible Investment in 2019.</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>
7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> a) CPF – Clwyd Pension Fund – 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 b) Administering authority or scheme manager – 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. c) Absolute Return – The actual return, as opposed to the return relative to a benchmark. d) Annualised – Figures expressed as applying to 1 year. e) Duration – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. f) Market Volatility – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. g) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cash-flows.

- h) **Relative Return** – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.
- i) **Three-Year Return** – The total return on the fund over a three-year period expressed in percent per annum.
- j) **Time-Weighted Rate of Return** – The rate of return on an investment removing the effect of the amount and timing of cash-flows.
- k) **Yield (Gross Redemption Yield)** – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cash-flows.

A comprehensive list of investment terms can be found via the following link:

<https://www.schroders.com/en/uk/adviser/tools/glossary/>