

## **FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:** **CLWYD PENSION FUND COMMITTEE**

**DATE:** **22nd JULY 2014**

**REPORT BY:** **CHIEF OFFICER (PEOPLE AND RESOURCES)**

**SUBJECT:** **FUNDING AND FLIGHT-PATH UPDATE**

### **1.00 PURPOSE OF REPORT**

1.01 To update Committee Members on the funding position and liability hedging undertaken as part of the Flight-path strategy for managing liability risks.

### **2.00 BACKGROUND**

2.01 A role of the Committee is to monitor the funding position of the Fund and the management of the liabilities.

2.02 Mercer provides advice to the Fund on liability hedging and flight-paths. Insight Investments were appointed to manage the assets on behalf of the Fund.

2.03 The flight-path strategy commenced from 1<sup>st</sup> April 2014 with the following aims:

- Achieve a 'base level' of interest rate and inflation hedging (10% hedge ratio) at the outset.
- Aim for a target interest rate and inflation hedge of 40% by April 2019.
- Achieve a target interest rate and inflation hedge ratio of 80% in the long term.

To this end, Insight will construct and manage a portfolio of assets that aims to hedge a proportion of the Fund's liability cash flows.

2.04 By replacing the Fund's passive equity exposure with an Equity Total Return Swap (synthetic equity exposure) the Fund freed up capital to be used as collateral for a liability hedging portfolio. This enables the Fund to maintain its exposure to return seeking assets, while reducing the interest and inflation risks.

2.05 From the 'base level' further hedging will be achieved through an incremental build up over time overlaid with triggers according to prevailing market conditions. In addition there are funding level triggers which will result in the disinvestment of growth assets as the funding level improves. All the above is fully documented and understood by Mercer and Insight.

2.06 The triggers have been formulated on the understanding that the Fund's overall objective is to be fully funded within 10 to 12 years which is ahead of the average recovery plan based on deficit contributions of 18 years.

### **3.00 CONSIDERATIONS**

3.01 The report from Mercer on the funding level and liability hedging is attached. This will be presented at the Committee meeting including a verbal update.

3.02 In summary since the commencement of the strategy a number of interest rate triggers have been met and the Fund now has an interest rate hedge of about 21%. No inflation rate or funding triggers have been reached.

3.03 The estimated funding position as at 30<sup>th</sup> June is 72% which is ahead of the current funding plan. I

### **4.00 RECOMMENDATIONS**

4.01 That Committee Members note and discuss the estimated funding level and the liability hedging undertaken to 30<sup>th</sup> June 2014.

### **5.00 FINANCIAL IMPLICATIONS**

5.01 None directly as a result of this report.

### **6.00 ANTIPOVERTY IMPACT**

6.01 None directly as a result of this report.

### **7.00 ENVIRONMENTAL IMPACT**

7.01 None directly as a result of this report.

### **8.00 EQUALITIES IMPACT**

8.01 None directly as a result of this report.

### **9.00 PERSONNEL IMPLICATIONS**

9.01 None directly as a result of this report

### **10.00 CONSULTATION REQUIRED**

10.01 None directly as a result of this report

### **11.00 CONSULTATION UNDERTAKEN**

11.01 None directly as a result of this report

### **12.00 APPENDICES**

12.01 Funding and Flight Path Update

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**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

Background Papers:       None

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