

FLINTSHIRE COUNTY COUNCIL

REPORT TO : **CLWYD PENSION FUND COMMITTEE**

DATE : **21ST MAY 2015**

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

SUBJECT: **INVESTMENT AND FUNDING UPDATE**

1.0 PURPOSE OF REPORT

1.01 To provide Committee Members with an update of investment and funding related issues.

2.00 BACKGROUND

2.01 An investment and funding update is on each quarterly Committee agenda and includes a number of items for information or discussion. The items for this quarter are:

- Business Plan 2015/16 update (Appendix 1)
- Delegated Responsibilities

3.00 CONSIDERATIONS

Business Plan 2015/16 Update

3.01 Appendix 1 shows the Funding and Investment Business Plan 2015/16. The key actions for quarter 1 (1st April to 30th June) are:

- Flight path "Health check" Review (see agenda 14)
- Final Accounts
- Review of In House Investments
- Establishment of Managed Account Platform (see agenda 15)
- Tactical Management Portfolio
- Update of Statement of Investment Principles (see agenda 9).

Final Accounts

3.02 The closure of the Pension Fund accounts commenced in April 2015 and discussions have been held with Wales Audit Office (WAO) to determine and agree the format and timescales for the 2015/16 accounts. The formal audit will commence in June 2015. The final accounts and annual report will be presented to the 23rd September 2015 Committee and the accounts will be approved by County Council on 24th September 2015.

Review of In House Investments

3.03 As previously reported, following the approval of the strategic review in November 2014, Fund officers and Bob Young, the previous Independent Consultant to the Clwyd Pension Fund have been progressing with a review of

the In-House portfolio of Private Equity and Real Asset holdings. The 1st stage of this review was presented to JLT on March 17th 2015 in advance of the Advisory Panel on March 24th. This focused on the performance of the various asset classes and regions in the portfolio to determine which types of investments to concentrate on in the future. The 2nd stage of this review is now underway which is concentrating on cash flows to determine the appropriate levels of commitments to investments which can be considered over the next few years. It is intended to provide Committee Members with training on the different asset classes within the In-House portfolio over the next 12 months.

Tactical Management Portfolio

- 3.04 Monthly meetings of the Tactical Asset Allocation Group (TAAG) involving Fund officers and JLT Consultants are now in place. Standard agenda items for the meetings cover the short term (12 months) market outlook and discussions to determine which asset classes should be included in the 9% of the Fund's assets which is based on JLT's suggested "best ideas". The minutes of the TAAG are circulated to the Advisory Panel.

The rationale behind this short term tactical allocation is twofold:

- To take advantage quickly of new "best ideas" as they emerge in markets
- To be able to adjust quickly the risk exposures within the overall investment structure as market expectations change and economic scenarios develop and change.

- 3.05 The TAAG have been considering the most appropriate solution to implement this within one fund and following research and investigation of a number of alternative structures have identified a Unit Linked Life Insurance Policy with Mobius Life Limited.

Under this option it is possible to hold all assets for the tactical portfolio within a special 'blended' fund specifically created for the Clwyd Pension Fund. It would be priced and unitised on a daily basis and therefore it is straightforward to measure and monitor. It would be identified as the Clwyd Tactical Fund. Mobius invest only through third party funds and the vehicle is designed to make dealing and pricing easy and straightforward. Costs for underlying managers are reduced as all holdings are aggregated across the Mobius Platform.

With regard to use of managers, this too would not present a problem as Mobius have already carried out the operational due diligence on over 150 different funds and managers.

In terms of the investment quality of the managers that might be used within the Clwyd Tactical Fund, these would only be those on JLT's approved list of managers. Having reviewed the range of funds and managers, it has been determined that there are no current gaps in those available and all investment exposures likely to be required could be met.

3.06 The latest meeting of the TAAG identified the following areas to allocate to the short term tactical asset portfolio:

- Commodities (2%)
- US Equities (2%)
- Managed Futures (5%)

The rationale for this decision is included in the minutes of the TAAG provided to the Advisory Panel.

3.07 These allocations would be facilitated through current existing managers and mandates as part of the ongoing transition.

Reorganisation of Asset Portfolio

3.08 The new Fund Strategy was agreed at the November 2014 Committee and the 1st stage of the transition (£100m of assets) was carried out by Fund officers and completed in March 2015, details of which were reported to the Committee on 24th March 2015.

The next stage of the transition of assets totalling £115m has now been completed and has involved:

- £15 m additional subscription to Frontier Market Equities (Aberdeen)
- £50m additional subscription to Hedge Funds including Managed Futures (SSARIS) – this is part of the short term tactical portfolio
- £50m redemption of Global Tactical Asset (BlackRock).

Delegated Responsibilities

3.09 The Pension Fund Committee has delegated a number a responsibilities to officers or individuals. The following delegations have been used since the last meeting:

- Rebalancing and cash management (see 3.10)
- Short Term Tactical Asset decisions (see 3.06)
- Ongoing monitoring of Fund Managers (see 3.11)

Rebalancing and Cash Management

3.10 In-house cash balances as at April 30th 2015 were £20.0m (£43.7m at March 31st 2015). The Fund is still transitioning assets between the previous strategic allocations and the allocations agreed in the Fund Strategy Review (see agenda 13).

Monitoring of Fund Managers

3.11 The in-house team, along with JLT, monitor the Fund's managers quarterly on a rota basis ensuring that the managers with the larger allocations are met with quarterly, whilst the others are seen at least on an annual basis. A record of the managers to be seen in quarter 1 2015/16 is shown in the following table. Further details on the managers are reported by JLT, the Fund's Investment Consultant, in agenda item 13 of the committee papers.

Manager	Strategic Weight %	Jun 2015	Sept 2015	Dec 2015	Mar 2016
Insight	19				
Stone Harbor	15	✓			
Investec	13	✓			
Managed Account	9				
Wellington	6.5	✓			
Pyrford	5	✓			
Aberdeen	2.5	✓			

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report and ratify the appointment of a Unit Linked Life Insurance Policy with Mobius Life Limited.

5.00 FINANCIAL IMPLICATIONS

5.01 Mobius apply a charge over the underlying manager charges. However, this cost is normally off set by the aggregation discounts received from managers.

6.00 ANTI-POVERTY IMPACT

6.01 None.

7.00 ENVIRONMENTAL IMPACT

7.01 None.

8.00 EQUALITIES IMPACT

8.01 None.

9.00 PERSONNEL IMPLICATIONS

9.01 None.

10.00 CONSULTATION REQUIRED

10.01 None.

11.00 CONSULTATION UNDERTAKEN

11.01 None.

12.00 APPENDICES

12.01 Business Plan 2015/16 (Investments & Funding)

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Documents: 5th November 2014 Pension Fund Committee –
Delegation of Functions
24th March 2015 Pension Fund Committee – Clwyd
Pension Fund Business Plan 2015/16 – 2017/18

Contact Officer: Philip Latham, Clwyd Pension Fund Manager
Tel : 01352 702264
Fax: 01352 702279
E Mail: Philip.Latham@Flintshire.gov.uk