

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 16 February 2017
Report Subject	Investment and Funding Update
Report Author	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 2016/17 update for quarter 3 (October to December 2016) is attached as Appendix 1. To summarise, the following tasks are on target for completion, Triennial Actuarial Valuation, Flight Path “Health Check” review and Investment Strategy review. Asset Pooling is continuing and the Investment Strategy Statement and review of Additional Voluntary Contributions (AVC) have commenced.
- (b) Current Developments and News – News and development continues to be dominated by the Pooling debate across the LGPS which has been covered in agenda item 4. MiFID II is also at the forefront of the news and has been covered in agenda item 8 with a presentation from the Fund’s Consultants, JLT.
- (c) Funding & investment related policy/strategy implementation and monitoring – This section updates members on the progress in the following areas:
 - Investment Strategy Statement
 - Implementation of the “light touch” review of Investment Strategy
 - Actuarial Valuation and Employer Covenant Exercise
- (d) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

RECOMMENDATIONS

1	That the Committee consider and note the update including the delegated responsibilities and provide any comments.
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REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plan up to the end of quarter 3 to 31 December 2016.</p> <ul style="list-style-type: none"> • The Actuarial Valuation will be completed by 31st March (paragraph. 1.05). • The Flight Path “Health Check “is on target to be completed by 31st March and details are provided in agenda item 12. • The review of Investment Strategy was completed in Q3, details of the results and implementation are provided in paragraph 1.06. • Asset pooling is continuing. • The review of AVC’s has commenced. • The Investment Strategy Statement has commenced now the DCLG have issued the new investment regulations and guidance.
1.02	<p>Current Developments and News</p> <p>Working Together in Wales.</p> <p>An update on the current position on Pooling of Investments within Wales has been provided as part of agenda 4 of this Committee.</p>
1.03	<p>Policy and Strategy Implementation and Monitoring</p> <p>In August 2016, the Fund’s consultants, JLT, commenced a “light touch” review of the Fund’s investment strategy. The results were presented to the September 2016 Committee and the following strategic changes agreed:</p> <ul style="list-style-type: none"> • Current 8% Global Equity Mandate to be reduced by 4% and reinvested in a Smart Beta Mandate • 2.5% allocated to Frontier Market Mandate to be redeemed in full • Increase allocation for “Best Ideas” from 9% to 11% • 3% allocation to Private Credit • Reduce Property exposure (over time) from 7% to 4% • Increase Infrastructure exposure (over time) from 4% to 8% <p>The transition to implement the new strategy is underway along with rebalancing of the Fund’s assets to the strategic ranges. To date, the following transactions have been actioned:</p> <ul style="list-style-type: none"> • Redeemed £30m from Aberdeen, Frontier Market • Additional subscription of £21m to Investec Diversified Growth Fund • Additional subscription of £16m to Pырford Diversified Growth Fund
1.04	<p>The Fund has started the process with Consultants, JLT, to appoint one or more managers for the 3% allocation to Private Credit. This will be approximately £50m in total. Questionnaires have been issued to participating managers with a view to interviewing short listed candidates’ week commencing 3rd April 2017.</p>

1.05	<p>Actuarial Valuation - The valuation needs to be signed off by 31 March at the latest and the Funding Strategy Statement (FSS) will need to be agreed by the Committee beforehand.</p> <p>All individual employers' results have been communicated, and the FSS consultation process has also been completed. A small number of employers responded with comments on the FSS which have been taken into account where appropriate. The Fund will shortly be writing to employers to confirm final contribution requirements for the period from 1 April 2017 to 31 March 2020. The final FSS will be tabled at the March Committee for agreement. The Actuary will then produce his final valuation report and Rates & Adjustment Certificate as required under the LGPS Regulations.</p>
1.06	<p>Investment Strategy Statement (ISS) – The Fund's Business Plan identifies the requirement to produce an Investments Strategy Statement which will replace the current Statement of Investment Principles (SIP). This was originally due to commence in quarter 2 but was delayed awaiting the DCLG guidance on preparing the statements along with revised Investment Regulations. These were received in quarter 3 and a briefing session was provided at the November Committee. The draft ISS is currently being progressed and will be presented at the Committee on 21st March 2017 for approval in advance of the publication deadline of 1st April 2017.</p> <p>The implementation and monitoring of the Fund's current Statement of Investment Principles (SIP) continues to be undertaken through delegated responsibilities as outlined below.</p>
1.07	<p>Delegated Responsibilities</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"> • There is sufficient liquidity to meet short term requirements • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • The Fund's strategic allocation is being rebalanced to its strategic ranges alongside the implementation of the recommendations of the Strategic Review which were agreed by the Committee in September 2016. • Within the "In House" portfolio, 3 further commitments have been made in the Real Asset and Private Markets portfolios totalling a sterling equivalent of £24 million. All these commitments follow the strategy agreed by the AP for these asset classes. • There are no significant matters to bring to the attention of the Committee as a result of the Fund Manager monitoring meetings. • A full redemption of the Aberdeen Frontier Market Equity mandate has been completed in line with the strategic investment review recommendations agreed previously by the Committee.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Fund Employers have been consulted on the Funding Strategy Statement.

4.00	RISK MANAGEMENT
4.01	Appendix 3 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	None of the risks in Investments and Funding are substantially different to the target risks with most being just one step away from their targets. Risks F1, F2, F3 and F6 are the significant or very high likelihoods and all relate to matters considered as part of the Actuarial Valuation.
4.03	A review of the risks is being undertaken and will be presented at the March Committee. It is anticipated that the Actuarial Valuation and Flight Path review will assist in bringing these risks closer to their targets.

5.00	APPENDICES
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Business Plan 2016/7 to 2018/19 – 22 March 2016. Contact Officer: Debbie Fielder, Pension Finance Manager Telephone: 01352 702259 E-mail: debbie.a.fielder@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(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) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund
- (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.
- (e) **AP – Advisory Panel** – 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.
- (f) **PERAG – Private Equity and Real Asset Group** – 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.
- (g) **In House Investments** – 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.
- (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. This will be replaced by the **Investment Strategy Statement (ISS)**
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **MiFID II** – this and the Regulation on Markets in Financial Instruments and Amending Regulation (“MiFIR”) are both European Commission legislation and are commonly referred to as "MiFID II". Together they seek to provide a European-wide legislative framework for regulating the operation of financial markets in the EU.
- (l) A full glossary of Investments terms can be accessed via the following link.
<http://www.fandc.com/uk/private-investors/tools/glossary/>