

DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.061	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Clwyd Pension Manager who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

In the quarter to March 2017, the assets were rebalanced in conjunction with the implementation of the agreed strategic review. The following transitions were managed by the Pension Finance Manager:

- Investec Diversified Growth Fund rebalanced to 6% using part redemption of Aberdeen Frontier Markets Mandate
- Pyrford Diversified Growth Fund rebalanced to 6%.
- Redemption of £80m from Insight LDI Mandate to reduce the allocation to 23.5%.
- Stone Harbour Multi Asset Credit rebalanced to 11.9% (plus £17m)
- JLT “Best Ideas” Portfolio increased to 10.9% (plus £50m)
- Man FRM managed Hedge Funds, rebalanced to 8.8% (plus £20m)

Cash Management

Background

The Pension Finance Manager forecasts the Fund’s 3 year cash flows in the Business Plan and this is monitored and revised quarterly. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 31st March 2017 was £13.6m (£17.3m at 31st January 2017). Cash balance as at May 31st 2017 was £60.7m reflecting the upfront payments of Employer deficit contributions in April 2017 following the Actuarial Valuation. The cash flow has been monitored to ensure there is sufficient monies to pay benefits and capital calls for investments and with any surplus will be invested as part of the re-balancing.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.062	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the 'Best Ideas' portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund (increased from 9% at the last strategic review). The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

Action Taken

As result of the increase in the allocation to the Best Ideas portfolio additional investments of £50m were implemented in March 2017:

- Increase exposure to Emerging Market Equities - £32m
- Invest £18m in BlackRock US Opportunities (US Equity Market Fund)

The current allocations within the portfolio following the additional investments are:

- Commodities (2.5%)
- Japanese Equities (1.0%)
- US Equities (3.5%)
- Equity Linked Bonds (0.5%)
- Emerging Market Equities (3.5%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Clwyd Pension Fund Manager and decisions made under this delegation have been circulated to the Advisory Panel.

As at the end of March 2017, the Best Ideas portfolio has both outperformed its target and added value to the investment return at total Fund level.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.063	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's investment strategy includes a 22% asset allocation to private equity (10%), property (4%), infrastructure (7%) and agriculture (1%). The last strategic investment review reduced the property allocation by 3% and increased the infrastructure allocation by 3%. Given the illiquid nature of these investments this transition will take a number of years to implement. These are higher risk investments, usually in limited partnerships, hence small commitments are made of £8m in each. Across these asset categories there are currently 50 investment managers, investing in 115 limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made,

Action Taken

Due diligence has been undertaken on two Opportunistic, two Private Equity and four Infrastructure investments and the following commitments have been made under delegated authority since the last Committee:

- \$10 million to Neuberger Berman PE Credit Opportunities Fund I (US Opportunistic Fund targeting 15 - 20% Net IRR)
- €10 million to BlackRock European Property Fund IV (European Opportunistic Fund targeting 15% net IRR)
- \$10 million to Standard Life Secondary Fund IIII (US and Europe Private Equity Fund targeting 17.5% Net IRR)
- \$10 million to Partners Group Direct 2016 (Global Private Equity Fund targeting 15% net IRR)
- €10 million to Harbour Vest Real Assets Fund III (Global Infrastructure Fund targeting 15% net IRR)
- \$10 million to InfraRed Infrastructure Fund V (Global Infrastructure Fund targeting 11 - 13% net IRR)
- €10 million to Partners Group Direct Infrastructure 2015 (Global Infrastructure Fund targeting 8 - 12% net IRR)
- £8 million to Hermes Infrastructure Fund II (UK and Europe Infrastructure Fund targeting 10% net IRR)

Three commitments are follow on investments with existing managers, the other five are with managers already involved with the Fund through other In House investments. The aim being not to increase the number of fund manager relationships already in place unless absolutely necessary to assist with the governance of the in house portfolio.

A review was undertaken of the existing portfolio and future cash flows and the results were incorporated into the forward work plan. As a result, extensive work has been carried out to identify suitable Infrastructure investments. Several commitments have already been agreed and further due diligence is being undertaken on other possible opportunities. It is anticipated that an allocation of 7% to Infrastructure will be achievable by 2020. Within the remaining In House portfolio, officers are continuing to look at any opportunities which fulfil their agreed strategy. The minutes of the PERAG Group have been circulated to the Advisory Panel.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.064	Ongoing monitoring of Fund Managers	PFM, CFM and CEO (having regard to ongoing advice of the IC) and subject to ratification by PFC	High level monitoring at PFC with more detailed monitoring by PAP

Background

On occasion, as a result of changes to the Fund's investment strategy or persistent poor performance by a fund manager, changes are required. The Committee delegate these changes to officers having regard to advice from the Investment Consultant and only ratify the process. In the longer term fund manager selection and dismissal will be the responsibility of the Wales Pool.

Action taken

The strategy changes agreed by Committee as a result of the "light touch" strategic review included a 3% allocation to Private Debt and 4% allocation to Smart Beta within the global equity allocation.

For private debt the search for one or more managers began in March 2017 where managers were invited to submit their suitability for the specific mandate agreed with the Fund and its Investment Consultant, JLT. 10 managers responded to the search and a short list of 4 managers (all UK / European) was agreed to take through to the next stage of the process.

Due diligence meetings were held with the short listed manager, JLT and the Pension Finance Manager in April 2017 where the recommendation to award a mandate of £30m to Permira, a European Private Credit manager was made. Due to urgency and the absence of a Committee due to the local elections the appointment has been fully delegated to officers

The search for a North American Private Credit manager commenced in June 2017, details to be provided at the September 2017 Committee.

The Committee has previously agreed that the implementation of the new smart beta asset allocation (4% of the Fund) will be done via Blackrock as part of the Wales Pool arrangements for this asset class. Discussions have been on-going with Blackrock and it is now planned to fund this by the end of July 2017.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.065	Selection, appointment and dismissal of Fund Managers	PFM, CFM and CEO (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.

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