

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 <sup>th</sup> February 2019
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	Deputy Head, Clwyd Pension Fund

### **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 2018/19 update for quarter 3 (October to December 2018) is attached as Appendix 1. There are three tasks relating to this quarter, Asset Pooling (progressing on target), Interim Funding Review (completed) and Employer Risk Management Framework (completed)
- (b) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which has been covered in agenda item 5.
- (c) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.
- (d) An update on the plans and timescales for the 2019 Actuarial Valuation, as we approach the valuation date of 31 March 2019. There are a number of areas which will require approval from the Committee and these are set out with the report. A timetable for the valuation has also been included as Appendix 3.

### **RECOMMENDATIONS**

1	That the Committee consider and note the update for delegated responsibilities and provide any comments.
2	The Committee note the timescales for the 2019 valuation plan and understand the areas that will require Committee approval.

## **REPORT DETAILS**

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Business Plan Update</b></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 2018.</p> <p>Two projects have been completed and the third is ongoing.</p>
1.02	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p>The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, JLT which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the JLT report included in agenda item 10.</p> <p>The Advisory Panel also receive reports from the following groups:</p> <ul style="list-style-type: none"><li>• Tactical Asset Allocation Group (TAAG)</li><li>• Funding and Risk Management Group (FRMG)</li><li>• Private Equity and Real Assets Group (PERAG)</li></ul> <p>Any delegations arising from these meetings are detailed in Appendix 2.</p>
1.03	<p><b>2019 Actuarial Valuation</b></p> <p>Legislation requires that every three years, an actuarial valuation is performed by the Fund Actuary in order to assess the overall funding position of the Fund, and to determine the employer contributions for the following three years. The actuarial valuation represents a major activity in managing the Clwyd Pension Fund and acts as a key governance tool to shape its direction.</p> <p>The effective date of the actuarial valuation is 31 March 2019, and the employer contributions that will be certified by the Fund Actuary will be for the three-year period 2020/23.</p> <p>As we are approaching the valuation date, it is important that the Committee understand their role in the process, in particular:</p> <ul style="list-style-type: none"><li>• Approval of the draft Funding Strategy Statement. This will then be provided to employers for formal consultation following approval at the September 2019 committee meeting. The decisions required are as follows:<ul style="list-style-type: none"><li>○ Agreement to the proposed financial and demographic assumptions to adopt in the calculations</li><li>○ Agreement to the approach to dealing with employer data issues</li><li>○ Agreement to the Fund policies to apply e.g.<ul style="list-style-type: none"><li>▪ the admission and termination policy</li><li>▪ the approach to covenant monitoring</li><li>▪ the approach to apply when setting employer contributions with regard to length of recovery period etc.</li><li>▪ setting the ill health captive arrangement</li></ul></li></ul></li></ul>

	<ul style="list-style-type: none"> <li>○ The approach to take when communicating with employers regarding their valuation results</li> <li>● Approval of the final Funding Strategy Statement following the consultation process. This is required to sign off the formal valuation report and we expect this to be required in the February 2020 committee meeting.</li> </ul> <p>Appendix 4 provides an overview of the project plan in relation to the 2019 actuarial valuation. This highlights the key milestones in the coming months with regard to data provision and the delivery of results and includes the known scheduled meeting dates for 2019/20.</p> <p>The Committee will continue to be updated on the progress of the actuarial valuation over the year.</p>
1.04	<p><b>Delegated Responsibilities</b></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"> <li>● Cashflow forecasting identified low short term liquidity which resulted in redeeming £10m from the Insight LDI collateral pool. The Funds cashflow continues to be monitored closely.</li> <li>● Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).</li> <li>● Within the “In House” portfolio, 4 commitments have been made in the Private Equity and Infrastructure portfolios which follow the strategy agreed by the Advisory Panel for this asset class.</li> <li>● As reported to the previous Committee, the Fund made a commitment of £10m to the Development Bank of Wales Management Succession Fund. The press release that was issued is attached as Appendix 3.</li> </ul>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report. Significant resource requirements will be required from the administration and investment teams to complete the Actuarial process.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	The Fund is required to consult with employing bodies over the development of the FSS and overall framework of the actuarial valuation.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The Actuarial Valuation addresses some of the risks identified in the

	<p>Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
4.02	Appendix 5 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.03	<p>Risks 2, 3 and 4 relating to the value of assets and liabilities not being as expected - The Likelihood score has been changed to "Significant" from "Low". This is to reflect the increased risks associated with Brexit given the uncertainty. This may well be a short term position as we are currently considering the hedging of the currency risk before exit. We have considered the impact of this and this has been added as a new internal control.</p> <p>Note that all actions will be reviewed to incorporate the projects from the 2019/20 to 2021/22 business plan once it has been approved.</p> <p>In addition, the target dates have been extended due to potential risk of impact from Brexit, the ongoing bedding in and transitions to WPP and the ongoing work on employer covenant monitoring / ill health captive. The latter has been extended from its original timescale due to recruitment in the Finance Team taking longer than originally envisaged.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 - 2018/19 Business plan update  Appendix 2 – Delegated Responsibilities  Appendix 3 – Development Bank of Wales press release  Appendix 4 – 2019 Actuarial Valuation Project Plan  Appendix 5 – Risk dashboard and register – Investments and Funding</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Current FSS and 2016 Actuarial Valuation report.</p> <p><b>Contact Officer:</b> Debbie Fielder, Deputy Head, Clwyd Pension Fund  <b>Telephone:</b> 01352 702259  <b>E-mail:</b> Debbie.a.fielder@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund - Clwyd Pension Fund</b> – 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</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County</p>

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) **The Committee - 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) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- (l) **GMP – Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
- (m) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good

any existing shortfalls as set out in the separate Funding Strategy Statement.

(n) **Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.

(o) A full glossary of Investments terms can be accessed via the following link.

<http://www.fandc.com/uk/private-investors/tools/glossary/>