

DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.041	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 December 2018 the cashflow forecasting identified low short term liquidity at the end of December which resulted in redeeming £10m from the Insight LDI collateral pool to assist with cash-flow. This was actioned on 21st December 2018.

Subsequently, on 14th January 2019, the Investec Global Equity Portfolio (£75m) was transitioned into the Wales Pension Partnership transition account before being transferred to the Russell Investments Global Opportunities fund in mid-February.

Cash Management

Background

The Deputy Head of the Clwyd Pension Fund 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 December 2018 was £12.7m (£18.9m at 30th September 2018). As reported above, the cash flow forecasting identified the possibility that the Fund may experience a negative cash position and as such redeemed £10m from the Insight collateral pool. A Private Equity cash distribution was paid into the Fund bank account during the period which ensured the balance would have, in fact, been positive. Cash balance as at 31st January 2019 was £5.26m. The cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. The current cash flow (as seen in Appendix 1 of

agenda item 6) is estimating a final cash balance of £3.6m. This compares to an original budget of £4.2m but now includes the additional £10m cash injection. It was expected that cash flows would be a challenge given that some employers paid their 3 year deficit payment up front in 2017/18 and this is proving to be the case. Work is ongoing with the Consultant and Actuary to monitor the situation and be aware of any unforeseen issues. Monthly cash flows from April are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.042	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

Since the previous Committee the following transactions were agreed within the portfolio:

- Partial Redemption of BlackRock US Opps Fund –£ 10.0m (crystallised +5.5%)
- Partial Redemption of LGIM NA Equity (unhedged) - £10.0m (crystallised -4.5%)
- Part Redemption of BlackRock Japan Equity -£7.5m (crystallised +2.4%)
- Part Redemption of BlackRock European Equity – £2.5m (crystallised -5.8%)
- Part Redemption of BlackRock European Equity - £6.33m (crystallised -7.1%)
- Part Redemption of BlackRock Japanese Equities -£6.33m (crystallised -0.5%)
- Partial Redemption of LGIM NA Equity - £6.33m (crystallised -7.5%)
- Additional Investment of £15.0m in LGIM Infrastructure Fund
- Additional Investment of £5.0m in LGIM Global Real Estate Equity Fund
- Additional Investment of £5.0m in BlackRock Emerging Market Equities
- Additional investment of £5.0m in Investec Global Natural Resources Fund
- New investment of £19.0m in Pimco Emerging Market Local Bond Fund

The current allocations within the portfolio following the transactions are:

- US Equities (2.5%)
- Emerging Market Equities (1.2%)
- European Equities (0.8%)
- Japanese Equities (0.9%)
- Commodities (1.1%)
- Real Estate (1.7%)
- Infrastructure (1.7%)
- Emerging Market Bonds (1.1%)

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

As at the end of December 2018, the Best Ideas portfolio 3 year performance was +5.5% against a target of +5.3%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.043	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 4%. 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 in excess of 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.

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 still 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 are circulated to the Advisory Panel

Action Taken

Due diligence has been undertaken on the following Private Equity Funds, all of whom are existing managers included in our forward work program, coming back to the market with follow on Funds The following commitments have been made under delegated authority since the last Committee:

- €9 million to Partners Group Life Fund (Global Private Equity Fund focusing on sustainable goals and targeting 9 - 11% Net IRR plus measurable RISI results)
- \$10 million to North Haven Private Equity Asia Fund V (Asian Private Equity Fund targeting 15 – 20% Net IRR)
- €10 million to BlackRock European Property Fund V (European Property Fund targeting 12 – 14% Net IRR)

Due diligence has also been undertaken on the following Infrastructure Fund. This is a new Manager who looks to take advantage of strategic opportunities in the Infrastructure area. The following commitment has been made under delegated authority since the last Committee:

- £8 million to Newcore Strategic Situations Fund IV (Infrastructure Fund targeting 14 - 16% Net IRR)

Clwyd Pension Fund - Cash-flow 2018/19

