

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
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) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which has been covered in agenda item 6.
- (b) Delegated responsibilities (Appendix 1). 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.
- (c) The implications of the LGPS Amendment Regulations 2018 on the Fund and employers – in particular the introduction of exit credits on treasury management and funding policies set out in the FSS. Other implications for administration etc. are covered in other reports. Equally for employers it is important they consider the implications for their own commercial arrangements where they have transferred staff to new employers. The Fund is writing to employers to make them aware of the implications of the changes. A consultation with all employers on the changes required to the FSS and termination policy will also be completed over the coming weeks. The outcome will be reported back to Committee at the next meeting for agreement of the changes

RECOMMENDATIONS

1	That the Committee consider and note the steps proposed due to the Regulation changes for exit credits.
2	That the Committee consider and note the update for delegated responsibilities and provide any comments.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Implications of the LGPS Amendment Regulations 2018 on the Fund and Employers in relation to Exit Credits.</p> <p>The Local Government Pension Scheme (Amendment) Regulations 2018 were announced on 19th April 2018. They covered a number of issues, in particular, the introduction of “exit credits”. This applies when an employer exits the Fund whilst in surplus (based on an actuarial assessment). Historically any surplus would be subsumed by the guarantor (or the whole Fund if no guarantor exists) as the Fund was not permitted to pay a surplus back to an employer under the Regulations. This Regulation change now requires the Fund to pay the surplus assets versus the liabilities directly to the exiting employer within 3 months of exit.</p> <p>This will be seen as fair to employers who in the past have been required to pay a termination deficit but would not benefit from a surplus upon termination. However, it does impact on the treasury management for the Fund as some payments maybe large and potentially unanticipated.</p> <p>Given the significance of the change, the Fund will need to review its policies (in particular the termination policy contained within the FSS) to ensure that they allow sufficiently for the introduction of exit credits. Following this, a consultation with employers will be required and this will be done over the next few weeks. The Fund is also seeking advice on their own documents (e.g. admission agreements) to ensure that they remain fit for purpose.</p> <p>Critically, employers who have outsourced services need to ensure any commercial arrangements are aligned with this change. This is not a Fund matter but it is important the Fund works with employers to highlight the issues. With this in mind the Fund is in the initial process of drafting letters to all employers to inform them of the Regulation change and implications ahead of the consultation. This will also give them time to review their commercial agreements with their legal teams.</p> <p>The Committee will be updated on the progress of this at the next meeting including the outcome of the consultation to ratify the final changes.</p>
1.02	<p>Policy and Strategy Implementation and Monitoring</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 12.</p> <p>The Advisory Panel also receive reports from the following groups:</p> <ul style="list-style-type: none">• Tactical Asset Allocation Group (TAAG)• Funding and Risk Management Group (FRMG)• Private Equity and Real Assets Group (PERAG) <p>Within the Fund’s Investment Strategy Statement is our policy on Social and Responsible investments and Social Impact.</p>

	<p>In terms of measuring the social impact the Private Equity and Real Asset Group are conducting an exercise which will identify the allocations to Responsible Investments and Social Impact (RISI) within the Fund's Private Market exposures. This has involved an initial analysis of the portfolio to gain estimates of investments which may fall within these categories. The next phase of the exercise will be to contact all our Private Market managers to share our initial findings and ask for their views on the results and request further information on the degree and type of RISI impact analysis carried out within their fund commitments.</p> <p>The background and details of the exercise which is being circulated to the managers is attached as Appendix 3.</p>
1.03	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 1 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). • Within the "In House" portfolio, no commitments have been made but due diligence on existing managers who are fund raising is ongoing.

2.00	RESOURCE IMPLICATIONS
2.01	Some of the actions arising out of the issues identified for exit credits could mean changes to operational matters for the Fund. In particular, the review of and update to Fund policies will require some officer resource along with advice which was not anticipated in the 2018/19 budget

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	A consultation with Employers will be required following the review of the FSS and termination policy.

4.00	RISK MANAGEMENT
4.01	Appendix 2 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Governance risks: G2 & G7. <p>Funding and Investment risks: Five of the eight risks are currently at their overall target risk albeit the individual current impact or likelihood risk may be slightly higher than target. Of the remaining three risks in Investments</p>

	<p>and Funding, one is substantially different to the target risk, F6 with the other two being just one step away from their targets.</p> <p>Risk F6 remains the only risk with a significant likelihood and this relates to matters related to Pooling, Brexit and MiFID II.</p>
--	---

5.00	APPENDICES
5.01	<p>Appendix 1 – Delegated Responsibilities</p> <p>Appendix 2 – Risk dashboard and register – Investments and Funding</p> <p>Appendix 3 – RISI letter to Private Market managers</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None</p> <p>Contact Officer: Debbie Fielder, Pension Finance Manager Telephone: 01352 702259 E-mail: debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) The Fund - 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</p> <p>(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.</p> <p>(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</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>

- (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) A full glossary of Investments terms can be accessed via the following link.
<http://www.fandc.com/uk/private-investors/tools/glossary/>