

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12 th June 2019
Report Subject	Investment and Funding Update
Report Author	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 Plans 2018/19 update for quarter 4 (January to March 2019) and 2019/20, quarter 1 (April to June 2019) are attached as Appendix 1 and 2. All tasks are on target.
- (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 7.
- (c) Delegated responsibilities (Appendix 3). 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.

RECOMMENDATIONS

1	That the Committee consider and note the update for 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>Appendices 1 & 2 provide a summary of progress against the Investment and Funding section of the Business Plans for 2018/19 (up to March 2019) and 2019/20 (up to the end of quarter 1 to 30 June 2019).</p> <p>All projects are ongoing and on target.</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, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 15.</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>Any delegations arising from these meetings are detailed in Appendix 3.</p>
1.03	<p>Additional Voluntary Contributions</p> <p>The AVC landscape continues to change and over the coming months there will be significant changes at both Prudential and Equitable Life, which will impact on the Clwyd Pension Fund (CPF). The current position is set out below.</p> <p><u>Prudential</u></p> <p>Background</p> <p>Following an internal review of lifestyle options available to members, Prudential has decided to fully close their "Optimiser" lifestyle plans later this year. Their review took into account the impact of pension freedom changes in 2015 and also experience of how the AVC Funds were being used by all members (across all Schemes).</p> <p>Although the CPF introduced two new lifestyle arrangements in 2017 to replace the "Optimiser" plans that were previously available (following a review of the Fund's AVC arrangements), there are CPF members with investments in the "Optimiser" plans. Once the "Optimiser" plans have been fully closed, any funds invested in these plans need to be moved to new arrangements. The CPF needs to make a decision on what lifestyle arrangement the "Optimiser" plans will be switched to. Once notified, Prudential will make the necessary changes / issue the relevant communications later this year. The deadline for making the decision was 1 June 2019.</p>

	<p>Current Position / Next Steps</p> <p>The two lifestyle arrangements opted for in 2017 were principally the “Dynamic Growth Lifestyle Targeting Cash” and the “Dynamic Growth Lifestyle Targeting Retirement Options”. In light of:</p> <ul style="list-style-type: none"> • The pension freedoms available to members upon retirement • Since 2017 the majority of members have opted to join the “Targeting Cash” arrangement and • Following discussions with Mercer (who conducted the 2017 review) <p>Members will be invited by Prudential to make a decision as to which lifestyle arrangement they would like their funds to transfer to. In the absence of any positive decision the Fund will advise Prudential to default to a transfer to the “Targeting Cash” lifestyle arrangement in light of the points made above.</p> <p><u>Equitable Life</u></p> <p>Background</p> <p>As part of their Spring Announcement in 2018, Equitable Life announced their intention to transfer all policies to Reliance Life, with the transfers taking place during the latter part of 2019. Reliance Life have since been rebranded as Utmost Life and Pensions Limited. As part of the transfer deal, the Equitable Life With Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds. It was expected that the 35% Capital Distribution (the enhancement to disinvestments from the With Profits Fund that was in place previously for Equitable Life policyholders) would increase to 60%-70%.</p> <p>Current Position / Next Steps</p> <p>Equitable Life has recently stated that (for most investors in a policy with a 3.5% guaranteed interest rate) the Capital Distribution referred to above is now expected to increase further, although full details have yet to be confirmed. Equitable Life are now in the process of contacting LGPS Funds with further details of the proposed transfers.</p> <p>The attached note, prepared by Mercer, provides further information on the transfer and the expected timetable over which the changes will take place. As indicated in the note, it has been recommended that the CPF consider obtaining regulated investment advice in order to make the decisions that will be needed. Officers will be liaising with Mercer to consider the options available in the coming weeks.</p>
1.04	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 3 updates the Committee on the areas of delegation used since the last meeting.</p> <p>To summarise:</p> <ul style="list-style-type: none"> • Cashflow forecasting identified low short term liquidity which resulted in redeeming a further £10m from the Insight LDI collateral pool. The Funds cashflow continues to be monitored closely and is being investigated in more detail with the Fund’s Consultant and Actuary.

	<ul style="list-style-type: none"> • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • Within the “In House” portfolio, 1 commitment has been made in the Infrastructure portfolio which follows the strategy agreed by the Advisory Panel for this asset class.
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2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 4 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	<p>Three of the eight risks are currently at their overall target risk albeit F1, the individual current likelihood risk is slightly higher than target.</p> <p>Four of the risks are now significant, F2, F3, F4 and F6. All are investments and Funding and substantially different to the target risks.</p> <p>Risk F6 relates to matters related to Pooling and Brexit and risks 2, 3 and 4 relate to the value of assets and liabilities not being as expected - The Likelihood score reflects the increased risks associated with Brexit given the uncertainty. This may well be a short term position and we have implemented hedging of the currency risk to mitigate risks associated with the exit.</p> <p>F8 is low risk and only one step away from its target and relates to employer covenants which will be addressed as part of the Actuarial Valuation..</p>

5.00	APPENDICES
5.01	Appendix 1 - 2018/19 Business plan update Appendix 2 - 2019/20 Business plan update Appendix 3 – Delegated Responsibilities Appendix 4 – Risk dashboard and register – Investments and Funding

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None.

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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> <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.</p> <p>(h) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(i) ISS – Investment Strategy Statement – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.</p> <p>(j) FSS – Funding Strategy Statement – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(k) Funding & Risk Management Group (FRMG) - A subgroup of Pension Fund officers and advisers set up to discuss and implement</p>

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/>