MEETING:	**PENSION BOARD**
DATE:	**13 FEBRUARY 2017**
TITLE:	**PENSION FUND INVESTMENTS**
PURPOSE:	To scrutinise the types of investment held by the Pension Fund
RECOMMENDATION:	**NOTE THE INFORMATION**
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1. INTRODUCTION

The Pension Fund has a strategic allocation for the different types of investments it holds. The high level strategy is reviewed at least every three years following the triennial actuarial valuation. The Investment Strategy Statement (ISS) which is the subject of another item on this agenda sets out the types of investments may be used.

The types of investments used depend on the returns required to match the assumptions in the actuarial valuation. The current allocation is as follows:

	%
Global Equities	67.5
Private Equities	5.0
Total Equities	**72.5**
Bonds	15.0
Property	10.0
Infrastructure	2.5
Total	**100.0**

2. TYPES OF INVESTMENT

Holding different types of investments aims to spread the risk of not meeting the required returns.

The majority of pension fund investment is in equities as they are expected to provide better returns in the longer term. This is considered appropriate for a fund which has a deficit as measured by the actuarial valuation. Equities are the most volatile type of investment used by the Gwynedd fund.

Global Equities
The allocation to equities is spread over three different managers with different strategies as follows:

- Passive equity – aim to match the market performance
- Active equity – have an investment strategy to outperform the market

The two active equity managers have different strategies as follows:

- High conviction - Select a small number of target investments and set buy and purchase rates at which they will deal. This could provide high gains but could also have large losses.
- Spread the risk - Have a small holding in a large number of investments within a fund. This aims to provide consistent returns within 2% above the market and confine losses within 2% below the market.

During 2012/13 the global equity allocation was reduced by 2.5% in order to diversify into infrastructure as the returns are usually steady rates over a longer period which matches the profile of pension payments.

Private Equity
The fund has invested in Private Equity since 2008 which provides a higher yielding option. Whilst returns may vary from year to year depending on the maturity of the individual funds used, the longer term average adds to the equity returns.

Bonds
The bonds portfolio is an absolute return mandate which requires positive returns in all markets. It is benchmarked against cash returns and outperformance is expected. Since the inception of this mandate in 2010 bond markets have risen and are now seeing higher returns than the absolute mandate. Switching back to bonds now would be costly due to the high level of bonds.

Property
Property holdings are across four managers for historical reasons. Property can be expensive to buy into and opportunities which arise within the four funds we hold are not available very often. When property needs rebalancing the aim is to find an investor who is looking to sell and deal directly to reduce the fees.

Infrastructure
An allocation to infrastructure was made in 2013. The structure of this investment is similar to the private equity funds held by the fund. This allocation is building up gradually as opportunities arise and the individual worldwide infrastructure projects are grouped together in a fund. Investment is made in funds which hold many individual assets.

The Pensions Committee has discussed local infrastructure investment opportunities a number of times. The main aim for the pension fund is to provide enough funds to pay current and future pensions. Investing locally for political reasons is not appropriate under LGPS regulations. Any local investment would have to provide similar returns at similar risks to infrastructure elsewhere.

3. CHANGES IN TYPES OF INVESTMENT

The results from the 2016 actuarial valuation produces the percentage of future pensions earned to date is available as assets in the pension fund as at 31 March 2016. Gwynedd Pension Fund was 91% funded. This compares to 85% in 2013 and 83.5% in 2010.

As the fund is now over 90% funded it is appropriate to reduce the risk of investment. This would mean changing the allocation to reduce the more volatile equities and move more to bonds, property and infrastructure which provide more steady returns. This will be considered by the members of the Investment Panel at meetings in May and July. Any change would be subject to approval by the Pensions Committee.

4. CONCLUSION

The Board is invited to wish to make any comments on the types of investment.