



Strategy Healthcheck

Develop Stage

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Aon Hewitt | Retirement and Investment

Presentation to Powys County Council Pension Fund



Agenda

- Recap
- Develop stage: recommendations
 - Currency hedging
 - Infrastructure
 - Hedge fund review
- Next Steps

Strategy Healthcheck Process

Three simple steps

Discover

- Gather information on your beliefs using a multiple choice questionnaire
- Explore your expressed and implied beliefs in relation to investment and funding
- Provide a “Beliefs document” – also provides useful information to help create a training program



YOU ARE HERE

Develop

- Develop your current investment strategy
- Consider the most important outcomes for you
- Perform an assessment of risk

Deliver

- Present a solution that reflects your beliefs and agreed objective
- Create a plan to achieve long term goals
- Monitor the strategy to enable appropriate responses to changing circumstances

Discover Stage Review : Summary

Discover

Objective

Achieve full funding on a technical provisions basis, whilst ensuring a positive net cashflow allowing for investment income

Risk and Return

Broad consensus to maintain the current level of return and risk

Funding

Ensure that there is a high probability of full funding by the recovery date, whilst managing key risks

Need appropriate balance between contributions and investment return, together with the appropriate recovery period

Governance

Your governance requirements will evolve over time as the Wales Pool develops

The level of understanding to be expected of the Committee in respect to investment strategy will focus more on strategic decisions

Risk Management

Downside protection is important

Consider methods to introduce further diversification during the strategy healthcheck, cognisant of the requirement to maintain a suitable level of return

Committee was happy to consider more illiquid investments to benefit from illiquidity premium and increase diversification

Develop Lens: Quantitative Analysis

Develop

Data Extract from Stochastic Modelling

	Current Strategy	Currency Hedge 50% of Global Equities	Allocate 10% to Infrastructure	Restructure the Hedge Fund Allocation	Fully Incorporate Ideas
10 Year Median Return %	5.8	5.8	5.8	6.0	5.8
10 Year Median Volatility %	11.7	10.8	10.7	11.4	9.6
One Year Value at Risk (95 th Percentile)	£ 160 M	£ 157 M	£ 154 M	£ 159 M	£ 148 M
Year of Full Funding (73 rd Percentile)	2039	2039	2038	2037	2036

Develop Stage: Summary

Develop

- Identified three key recommendations to look into in more detail:

Currency
Hedging

Infrastructure

Hedge
Funds

Develop Stage: Currency Hedging

Recommendation: implement a 50% currency hedge for the Fund's global equity portfolio

- Sterling has depreciated substantially during the last year.
- The Fund asset value has benefited as the global equity allocation is translated into sterling at a higher value.
- Implementing a currency hedge for the global equity allocation partially protects a reversal.
- Does not affect liquidity.

Implementation

- BlackRock and Schroders both offer currency hedged share classes (which we rate) for funds already invested in
 - This means a transition can occur at minimal cost
- We recommend investing 100% of the Schroders holding in the currency hedged share class.
 - In-specie transition at no cost.
 - The additional fund management cost for this fund is 3bps p.a.
- To bring the Fund's strategic benchmark to an overall 50% currency hedge, 66% of the BlackRock passive equity portfolio benchmark will be currency hedged
 - This will allow the MTAA mandate to take currency positions in either direction
 - Minimal additional fund management cost

Manager	Benchmark weight of equity portfolio
BlackRock	60%
MFS	12%
Schroders	10%
Hosking	10%
Carnegie	8%

Develop Stage: Infrastructure

Infrastructure

Recommendation: implement a 10% allocation to infrastructure

- Infrastructure increases diversification.
- The value of certain Infrastructure investments are linked to the movement in inflation and help to mirror movement in the value of liabilities.
- The combined assets of the Wales Pool may lead to increased opportunities for investment.
- Infrastructure investment can provide a stream of cashflows to cover pension obligations.

Implementation

- Use 10% from global equities
- Implementation fees are variable depending on the complexity of the infrastructure investment.
- Typically has a higher level of associated fees than core asset classes consisting of a management fee and performance element.
- Training required prior to implementation - to be provided at 30 June meeting.

Develop Stage: Hedge Funds

Recommendation: Carry out a full review of the Fund's hedge fund strategy, looking to restructure the allocation away from Hedge Fund of Funds and instead invest in single strategy managers.

- More opportunities likely to be available through the Wales Pool for investment into single strategies.
- Investing in single strategies will remove a layer of management fees.

Implementation

- There may be explicit transaction costs associated with restructuring the Hedge Fund allocation.
- Restructuring the allocation is likely to lead to a reduction in fees as a layer of management is removed.
- Training required prior to implementation - to be provided at 30 June meeting.

Next steps

- Decide whether to pursue these options further
 - Provide further detail on implementation of currency hedging
 - Provide infrastructure and hedge fund training in June
- Review private equity holdings alongside infrastructure and other illiquids

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