CHESHIRE PENSION FUND

Pension Fund Committee
13 September 2019
Item 3

2019 Actuarial Valuation: Initial Results, Proposed amendments to the Funding Strategy Statement and Next Steps.

1. This provides the Committee with the initial results from the 2019 valuation and the next steps in the valuation and investment strategy review project. The paper also highlights proposed amendments to the Funding Strategy Statement prior to starting a consultation with employers. This paper will be facilitated by a presentation from Officers and the Fund actuary.

2019 Actuarial Valuation: Initial Results

Background

2. The paper has been jointly produced by Officers and Hymans Robertson

3. The paper summarises and should be read alongside the Hymans Robertson Initial Results report addressed to the Administering Authority which is included as Appendix A to this paper.

4. The purpose of the two documents is to;
    - present the current funding position of the Fund using a range of actuarial assumptions; and
    - explain why the funding position has changed since the previous actuarial valuation was carried out in 2016; and
    - show the sensitivity of the funding position to certain key assumptions.

2019 Actuarial Valuation: Assumptions

5. At their meeting on 15 March 2019 the Committee agreed the funding assumptions to adopt for the 2019 valuation. The agreed assumptions used to calculate the initial results are summarised below along with a brief explanation of the reasons for change if the assumption changed from the 2016 valuation.

Table 1: 2019 and 2016 Valuation Assumptions

Assumption	**2016**	**2019**	**Reason for change**
Assumed investment returns/discount rate Margin above risk free rate	1.6% p.a **3.8%.**[1]	1.6% p.a. **3.2%**	No change, level of prudence consistent with 2016 valuation
Pension Increases RPI- CPI gap	CPI less 1.0% p.a. **2.1%**	CPI less 1.0% p.a **2.3%.**	No change in methodology
Salary increases Inflationary	RPI less 0.7% **2.4%**	RPI less 0.3% **3.0%**	Expect higher short term pay increases
Longevity Baseline Future Improvements	Club Vita analysis CMI model, (2013 Version), peaked long term rate of improvements of 1.25% p.a.	Club Vita analysis CMI model (2018 version), smoothed long term rate of improvements of 1.25% p.a.	No change in methodology. Later version of CMI table reflects more recent experience.
Withdrawals	Increase in assumed rate of withdrawal to reflect recent experience		
Ill health retirements	Reduction in assumed incidences of ill health to reflect recent experience		
Promotional salary increases	No change		
50:50 take up option	5%	0%	Reflect continued low take-up rate
Cash commutation	No proposed change from 2016 valuation assumption		
Pre-retirement mortality	No proposed change from 2016 valuation assumption		
Proportions married	No proposed change from 2016 valuation assumption		
Retirement age	Slight adjustment to reflect emerging experience based on GAD's analysis		

[1] *note that this was derived using a different method from the 2019 valuation described above*

Longevity assumptions

6. The agreed longevity assumptions result in the following typical future life expectancies from age 65 (figures for 2013 shown for comparison):

Table 2: Typical future life expectancies

Assumed Life Expectancy	31 March 2016	31 March 2019
Male		
Pensioners	22.3 years	21.2 years
Non-pensioners	23.9 years	21.9 years
Female		
Pensioners	24.5 years	23.6 years
Non-pensioners	26.5 years	25.0 years

Non-pensioners are assumed to be aged 45 at 31 March 2019

<u>Additional comments on assumptions</u>

Retirement age pattern

7. The Fund has adopted the same retirement age pattern assumption as used for the 2016 LGPS cost cap valuation.

50/50 option

8. Following analysis of both the Fund's actual take up rate, and national statistics, the Fund has assumed a zero take up the 50/50 option.

<u>Funding Position as at 31 March 2019</u>

9. The solvency of the Fund as at 31 March 2019 based on the assumptions agreed at the Committee meeting on 15 March 2019 is set out below. The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2019. The results at the 2016 formal valuation are shown for comparison.

Table 3: Whole Fund solvency as at 31 March 2019

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	1,663	2,028
Deferred Pensioners	772	1,111
Pensioners	2,185	2,513
Total Liabilities	**4,620**	**5,652**
Assets	**4,153**	**5,583**
Surplus / (Deficit)	**(467)**	**(69)**
Funding Level	**90%**	**99%**

10. There has been an improvement in the reported funding level of the Fund from 90% to 99% and a reduction in the funding deficit from £467m to £69m

11. Liabilities have increased by £1.032bn to £5.652bn over the valuation period. The three biggest drivers of the increase in liabilities where a reduction in future assumed investment returns which have placed a higher present value on liabilities, interest on benefits already accrued and accrual of new benefits over the valuation period.

12. The increase in the value of liabilities has however been more than offset by the increase in the values of the Fund's assets from stronger than expected investment returns, resulting in a saving of £486m;

Table 4: Investment Returns 01 Apr 2016-31 March 2019

Investment returns	Expected	Actual	Difference	Impact on funding position
Over 3 year period	11.9%	33.3%	21.4%	Positive
Annual	3.8%	10.0%	6.2%	Positive

13. Over the 3 year period the Fund's asset returned 33.3% (£1.399bn), 21.4% in excess of the returns assumed at the 2016 valuation. The investment return in excess of the 2016 valuation assumption serves to 'pay back' a greater portion of the deficit than expected

Reconciling the change in the funding position

14. The following table quantifies the impact of the above and other experience items on both the Fund's liabilities and assets and provides an overall insight into how the funding position has changed between valuations.

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Table 5: Change in the deficit between 2016 and 2019 valuations

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	**4,153**	**4,620**	**(467)**
Cashflows			
Employer contributions paid in	444		444
Employee contributions paid in	108		108
Benefits paid out	(521)	(521)	0
Net transfers into / (out) of the Fund*	(7)		(7)
Other cashflows (e.g. Fund expenses)	(10)		(10)
Expected changes in membership			
Interest on benefits already accrued		579	(579)
Accrual of new benefits		512	(512)
Membership experience vs expectations			
Salary increases greater than expected		5	(5)
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	17	30	(13)
Ill health retirement strain		(19)	19
Early leavers less than expected		(12)	12
Pensions ceasing less than expected		(2)	2
Commutation less than expected		5	(5)
Impact of GMP equalisation		6	(6)
Other membership experience		(99)	99
Changes in market conditions			
Investment returns on the Fund's assets	1,399		1,399
Changes in future inflation expectations		145	(145)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(11)	11
Change in longevity assumptions		(200)	200
Change in salary increase assumption		33	(33)
Change in discount rate		582	(582)
This valuation at 31 March 2019	**5,583**	**5,652**	**(69)**

*We have insufficient data to value the impact on the liabilities as a result of all transfers in/out.

15. From the above table, other items which have had a material positive impact on the deficit are lower than assumed ill health retirement costs, a significantly higher number of members leaving the scheme earlier than expected and changes to the longevity assumption.

16. Other items which had a negative impact were the net effect of early retirement costs and the employers phasing the funding of these costs, an increase in future inflation expectations and salary increases being higher than expected.

Individual Employer Results

17. Members are asked to note that these results are for the whole fund. Every employer is valued separately based on their own membership data as part of the valuation and their change in funding position will therefore vary compared to that of the whole fund based on their individual experience.

18. Officers and the Actuary are working together reviewing individual employers valuation results and proposed contribution rates at an individual employer level are due to be available early October.

19. This will then initiate a series of employer engagement sessions through October and November where, following the success of previous valuations, each employer (with the exception of academies) will be offered the opportunity of employer surgeries to discuss the impact of the results.

20. Due to the practicalities of engaging individually with such a large number of academies and as the Fund's strategy is consistent for all academies, the Fund will offer a dedicated employer meeting solely for academies on 1 November. This will provide academies with the opportunity to engage with Fund Officers and the Fund's actuary.

21. All other (non academy) employers will also have a similar opportunity at another employer session the previous day, 31 October.

22. In conjunction with the employer surgeries and the employer meetings the Fund are required to publish and formally consult with stakeholders with a revised Funding Strategy Statement (FSS).

23. Proposed amendments to the FSS are presented to the Committee later in this paper.

Comment on McCloud Judgement

24. Following the results of the first LGPS cost sharing valuation (communicated in Autumn 2018), it was expected that benefit improvements would be granted in respect of future benefit accrual from 1 April 2019. It was estimated that the improvement would cost 0.9% of payroll for a typical LGPS employer. This change in the LGPS benefit structure has been put on hold whilst the recent age discrimination cases in public sector pension schemes (known as the "McCloud" case) are resolved. The benefits earned by some members since 1 April 2014 could be materially improved as a result of the McCloud case, increasing the value of the Fund's liabilities.

25. Based on advice issued by the Scheme Advisory Board in May 2019 the 2019 valuation has been calculated on the benefits as currently set out in the Regulations. That is, no allowance has been made for the impact on (past and future service) liabilities of either the LGPS cost sharing valuation or McCloud court case.

Links to Investment Strategy and Investment Strategy Review

26. In setting employer contribution rates, a contribution strategy cannot be considered in isolation from an investment strategy. Alongside the considerations for contribution strategy, the Fund's investment consultant (Mercer) will review and advise on the appropriateness of the Fund's investment strategies and the most appropriate strategy for each employer.

27. Members of the Committee are aware that alongside the triennial valuation exercise the Fund takes the opportunity to undertake a fundamental review of its investment strategy. This

ensures that investment strategy is aligned with the contribution strategies of the underlying employers, in order to ensure a deliverable long term funding plan. The starting point for the investment strategy review is the current asset allocation for each investment strategy alongside the embedded investment risk management framework. The work that will be undertaken over the next 6 months by Mercer and Officers will culminate in the Risk Management Booklet being presented to Committee in March 2020 for final consideration and approval. The Risk Management Booklet will incorporate:

- The proposed strategic asset allocation for each investment strategy
- The proposed dynamic risk management framework for those employers where de-risking is part of the long term funding plan.
- An explanation of the rationale for allocating employers to each investment strategy
- Control ranges for each asset class and manager
- Governance protocol for changes to asset allocations
- Other risk management consideration.

28. At the same point a revised Investment Strategy Statement and Responsible Investment Policy will also be presented to Committee for approval.

29. The slides from Mercer attached as Appendix B sets out the timeline for this exercise, the key areas of focus and key decision points and training requirements. The consultant will also provide the Committee with a verbal walkthrough of the planned investment review during the meeting.

Proposed amendments to the Funding Strategy Statement (FSS)

30. The FSS describes the actual decision-making processes of administering authorities in relation to how they manage ongoing employers' pension costs and risks in the context of their legal and fiduciary relationships with scheme employers.

31. The FSS is a key document for the Fund in two ways:

    1) Fund's officers, Pensions Committee and Local Board need to go through a process to be satisfied that the Fund will be collecting an appropriate level of contributions from each and every employer in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas

    2) The finalised FSS itself should be a clear and transparent reference point for the Fund's stakeholders, to provide proof that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

32. For reference, members can find the current FSS at the following link https://bit.ly/2ktjEZz

33. The most significant changes proposed as part of the 2019 review of the Fund's existing funding strategy are set out below.

Contribution stabilisation for Councils

34. Following the review of the funding strategy for the four councils that participate in the Fund, it was agreed at the 15 March 2019 Committee meeting to amend the levels by which their contribution rates can increase and decrease each year (known as the stabilisation parameters). The table below details the changes:

Table 6: Proposed Contribution Rates for the Councils from 1 April 2020

Proposed Rates	**Cheshire West and Chester Council**	**Warrington BC**	**Halton BC**	**Cheshire East Council**
Short term (1 April 2020 onwards)	Decreases of 1% of pay per annum for 3 years			Decreases of 1.5% of pay p.a. for 3 years
Long term stabilisation parameter	+/-1% of pay			+/-1.5% of pay

35. The committee are reminded that due to the improvement in funding levels across all of the councils, each council will be benefitting from contribution decreases in line with their respective stabilisation parameters starting from 1 April 2020. The table below sets out what the Fund believe to be the impact on the councils contribution rates:

Table 7. Estimated employer contribution rates from 1 April 2020

	Assumed Contribution rate 2019/20[2]	Contribution rate 2020/21	Contribution rate 2021/22	Contribution rate 2022/23
Cheshire West and Chester Council	25.3%	24.3%	23.3%	22.3%
Cheshire East Council	33.5%	32.0%	28.5%	27.0%
Halton BC	23.4%	22.4%	21.4%	20.4%
Warrington BC	23.8%	22.8%	21.8%	20.8%

[2] *All councils elected to pay their deficit payments as lump sums and therefore in 2019/2020 only pay primary contribution rates into the Fund. These figures are the estimated primary* ***and*** *secondary rates if we assumed the councils paid both as a % of pay in 2019/2020. These figures may not exactly match the rates that each council use internally to recharge the full cost of pensions to service*

Academies

36. As a result of the Academies Act 2010, primary and secondary schools were able to ‘convert’ from Local Education Authority (LEA) maintained school status to Academy status. The main reason for this was to provide the school with more autonomy.

37. This extra degree of autonomy also applied to pensions funding. Previously, when the school was under LEA control, the school’s funding position was pooled with the relevant LEA. However, upon conversion to Academy status, the school is removed from the council pool and is solely responsible for funding their own liabilities in the Fund with a contribution rate payable that reflects their specific funding position (this may be quite different from the LEAs contribution rate).

38. To help ease the transition, the Fund’s policy has been to allow academies to pay a contribution rate that was linked to the LEA. In the first year of conversion they would keep paying the LEA contribution rate. They would then also have the same stabilisation parameters as the ceding authority, ultimately they would end up paying their specific individual contribution rate (but the pace of getting to their individual contribution rate would be in line with LEA’s stabilisation parameters). This approach has been in operation since the first conversions at the start of this decade.

39. At this valuation, the Fund is considering breaking the link between the academies and the stabilisation parameters of the LEA. Instead, these schools will now move to and pay a rate based entirely on their own funding position and membership. The rate will be calculated based on the following parameters in the Fund’s risk based approach to setting contribution rates:

Table 8: Proposed Strategy for setting Academy employer contribution rates from 1 April 2020

	Academy	LEA
Funding Target	ongoing funding basis	ongoing funding basis
Time horizon	20 years	20 years
Likelihood of success	66%	66%
Stabilisation	None	+/-1% CWaC, HBC, WBC +/-1.5% CEC

40. From the above it can be seen that all other parameters are consistent with the approach for the ceding authorities. The reasons for this change are:

- The previous link to the ceding authority is at odds with the aim of the Academies Act to give more autonomy to schools and leads a school’s contribution rate being unduly influenced by the LEAs experience.

- Academies (the first of which whom converted in 2010) are now accustomed to participating in the Fund as an individual employer and understand their obligations to the Fund.

- Reduce the administrative burden of linking and tracking each academy’s starting contribution rate with the ceding authorities rate at each individual conversion point and applying the correct respective ceding authorities stabilisation parameter at each subsequent valuation.

Further Education establishments

41. In recent years, the funding arrangements for the Further Education (FE) sector has seen a significant change which has resulted in these bodies being re-classified from public to private sector employers. This change has also seen a considerable amount of uncertainty about the viability of certain establishments across England and resulted in a number of consolidations, mergers and takeovers.

42. Furthermore, the Ministry of Housing, Communities and Local Government (MHCLG) consulted on possible changes to the terms governing the participation of this employer group in the LGPS. Currently, FE employers must provide access to the LGPS for all staff who met the qualification criteria. The consultation proposes that this requirement is removed which gives FE employers the choice of whether it provides LGPS access to staff going forward.

43. For this group of employers, the current funding strategy allows them to participate in the same contribution stability mechanism as the councils (albeit with higher stabilisation parameters). Given that stabilisation is only appropriate for long term, secure employers and the changes outlined above, it is felt that stabilisation is no longer suitable. Instead, the following parameters are being proposed:

Table 9: Proposed Strategy for setting employer contribution rates for the HE/FE sector [3] from 1 April 2020

	2019 Proposal	Current strategy
Funding Target	ongoing funding basis	ongoing funding basis
Time horizon	15 years	15 years
Likelihood of success	75%	66%
Stabilisation	none	+2%/-0.5%

44. Members are asked to note that currently none of the colleges have provided any security in favour of the Fund and do not have a government or tax backed guarantor. Applying a 75% likelihood of success is consistent with the Fund's approach to other bodies in the same position, for example in the social housing sector. As part of the valuation consultation process, each college will be given the opportunity to discuss the impact of the change and the Fund may be able to provide flexibility if the colleges can provide some from of security in favour of the Fund

Transferee Admission Bodies (TABs)

45. In May 2018, the LGPS Regulations were amended to permit a payment to be made to any employer who ceased participation in the Fund with a funding surplus (previously all surplus was retained within the Fund). The payment will be equal to the value of the funding surplus and is known as an 'exit credit'.

46. This change in regulation primarily affects TABs who are usually employers undertaking an out-sourced function from a council or academy school ("the awarding authority"). Unlike most other employers in the Fund (who are open to new entrants), TABs have fixed time periods of participation equal to the outsourcing contract length.

[3] *Including the University of Chester*

47. At cessation, the funding position is dependent on the assumptions underlying the calculation of the liabilities. Therefore, a change in the underlying assumptions about the future, can increase or decrease any funding surplus. To ensure that the Fund is treating the exiting TAB and awarding authority fairly, it will ensure that the assumptions used to value an exiting employer are consistent with those used to allocate assets to the TAB at the point they joined the Fund.

Other changes

48. The Funding Strategy Statement will also be updated to allow for other changes to the regulatory environment such as:

- Exit credits legislation
- Valuation cycle consultation and Fund's policy on interim valuation assessments
- Dealing with McCloud/cost cap benefit uncertainty
- Clarifying approach to academies joining the Fund or moving MAT
- Clarifying post cessation agreements to Climate change risk
- GMP equalisation

Funding Strategy Statement - Next steps

49. As noted earlier Officers and the actuary are currently still reviewing individual employer valuation results. Members are asked to note that the Officers will present more information about the potential impact of implementing each of these proposals at the meeting on 13 September.

50. Subject to any comments, views, amendments from the Committee, the next step will be to draft an updated FSS for consultation with all employers. This will be shared with the Committee prior to the consultation.

51. It is proposed to formally launch the revised FSS and consultation at the two employer events on 31 October and 1 November 2019.

52. Again subject to any comments, views, amendments from the Committee, the proposed changes to the Fund's strategy for academies will be communicated at the academy event on 1 November 2019 and to each of the HE/FE colleges at the individual employer surgeries which will commence early October.

53. The Committee will formally sign off the FFS after the consultation with employers has closed.

Valuation Timetable

54. The table overleaf provides the Committee with an overview of the valuation timetable, and progress against delivering its outcomes and the key interaction points with the Committee.

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Table 10: 2019 Valuation Timetable

Date	Action	Status	RAG
March 2019	Committee sign off 2019 valuation assumptions	Completed	
July 2019	Provide membership data to actuary	Completed	
July 2019	Sign off Clean Data	Completed	
August 2019	Initial Draft Employer results	Completed	
Sep 2019	**Committee Meeting** Present whole Fund valuation Results Comment/agree amendments to Funding Strategy Statement	On target	
Oct 2019-January 2020	Employer Engagement	On target	
31 October 2019	Formal Employer Meeting – Non academies	On target	
1 November 2019	Formal Employer Meeting - Academies	On target	
Dec 2019	**Committee Meeting** Summary of employer results Emerging Issues		
Feb-March 2020	Finalisation of employer results and setting of contribution rates	On target	
March 2020	**Committee Meeting** Sign off (post consultation) Funding Strategy Statement and final 2019 Valuation Results Emerging Issues Significant employer results/issues	On target	
By 31 March 2020	Final valuation report and rates & adjustments certificate issued	On target	
From 1st April 2020	Revised employer contribution rates payable	On target	

Recommendation:

The Committee are asked to:

- **Note the progress made in completing the 2019 triennial valuation and investment strategy review**
- **Note and comment on the initial whole fund 2019 valuation results**
- **Note and comment on the proposal to amend the Funding Strategy Statement**
- **Note the next steps and the timetable to deliver the 2019 triennial valuation**
- **Note the key considerations and proposed timetable for the investment strategy review**

HYMANS ROBERTSON

Cheshire Pension Fund

2019 Actuarial Valuation

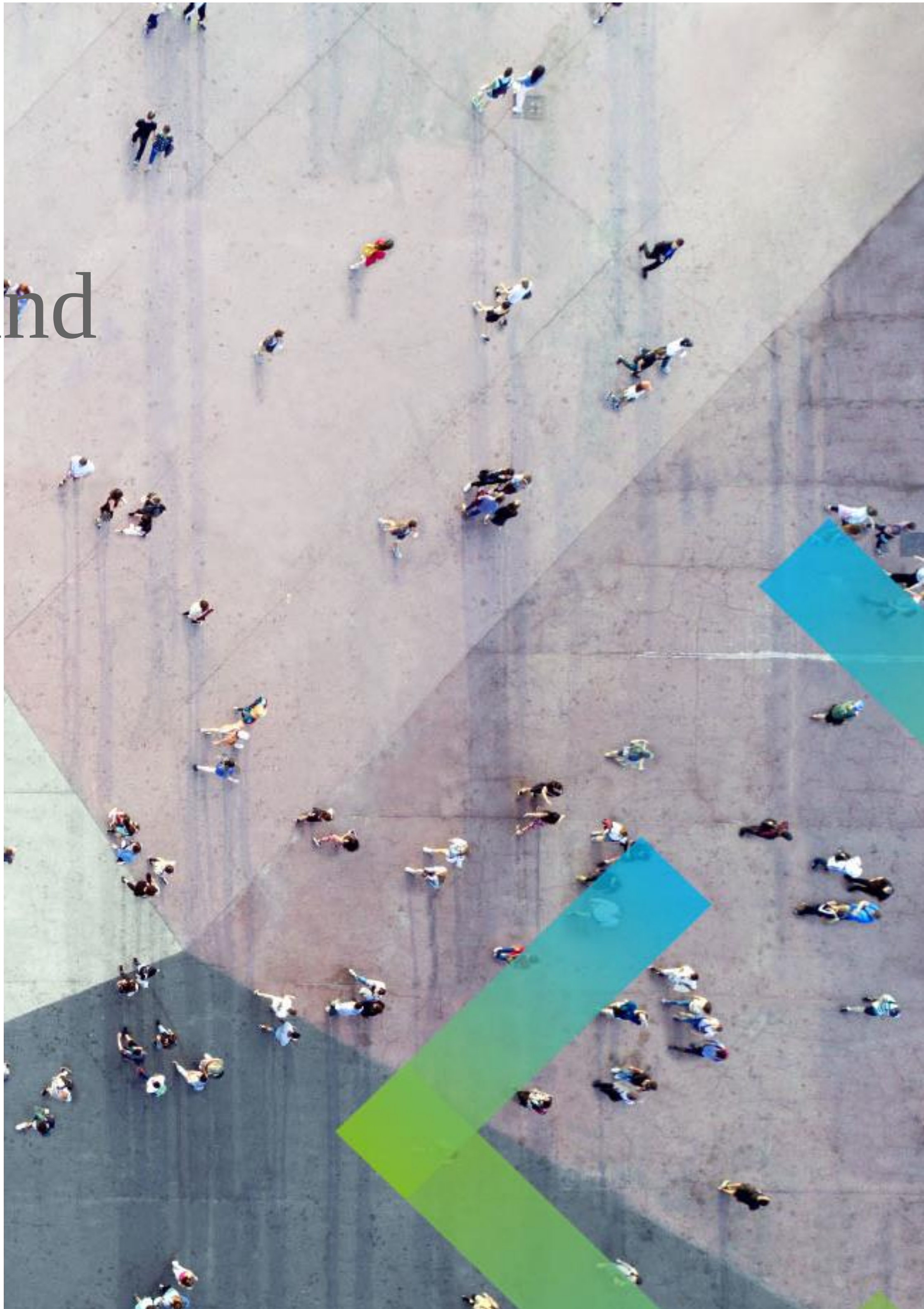
Initial Results

August 2019

Robert Bilton FFA

Peter MacRae FFA

For and on behalf of Hymans Robertson LLP



Contents

1 Introduction

We have been commissioned by Cheshire West & Chester Council ("the Administering Authority") to carry out a full actuarial valuation of the Cheshire Pension Fund. ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

This report is addressed to the Administering Authority. The purpose of this document is to;

- present the current funding position of the Fund using a range of actuarial assumptions; and
- explain why the funding position has changed since the previous actuarial valuation was carried out in 2016; and
- show the sensitivity of the funding position to certain key assumptions.

This information can be used by the Administering Authority to support the development of the funding strategy and to identify and understand areas of potential risk for which it may wish to explore possible avenues of risk mitigation during the valuation process.

This report should not be shared with any third parties without our prior written consent. Where consent is given, the report should be supplied in full including any related reliances and limitations.

Please note that Hymans Robertson LLP accept no liability to any third parties. The reliances and limitations in this report apply equally to all users of this report.

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS 100 – Principles for technical actuarial work;
- TAS 300 – Pensions.

However, it should be noted that this report does not comply with paragraph 12 b) or c) of TAS 300.The figures in this report provide a notification of the whole fund funding position. This report does not include individual employer contributions. Therefore, we do not believe the exclusion of the information required under these paragraphs is material.

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

2 Data

We have relied on the following items of data provided by the Administering Authority when carrying out our calculations:

- Membership data uploaded to the Data Portal on 9 July 2019
- Cashflow data uploaded to the Data Portal on a monthly basis from April 2016 – March 2019
- Investment data provided by the Administering Authority over the course of the intervaluation period (summarised in Section 4).

The accuracy of our results is limited by the quality of the data provided. We have carried out validations on the data provided to ensure it is fit for the purpose of the valuation. Further details can be found in our paper entitled "Data report for 2019 valuation", dated 2 September 2019. We believe the membership data is fit for the purposes of this valuation at whole fund level. We are aware of data issues affecting the accuracy of results for certain employers. The Fund is investigating these and will provide updated data for preparing results at employer-level. If any of these changes are significant, they may have an impact on the figures reported in this report.

The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2019. Details can be found at http://www.lgpsregs.org/. The Administering Authority should note that the LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud court case. At the time of writing we have not been provided with details for any subsequent benefit improvements and as such have not allowed for any in our calculations. This is approach is in line with the advice issued by the Scheme Advisory Board in May 2019.

3 Assumptions

The key assumptions required to carry out the formal valuation, and our approach to setting the assumptions, are discussed in guides 7 (Longevity and other demographic assumptions), 8 (Financial Assumptions) and 9 (Measuring a funding level) of our 2019 valuation toolkit.

To set appropriate assumptions for the valuation of the Cheshire Pension Fund, the Administering Authority commissioned the following actuarial advice to assist its assumption setting:

Paper entitled "CPF 2019 valuation – committee assumptions paper" dated 8 March 2019

The valuation assumptions were provisionally agreed by Officers following these papers and discussed at a Pensions Committee meeting on 28 March 2019.

Demographic assumptions

Longevity

The proposed 2019 valuation longevity assumptions are set out below, along with the assumptions adopted for the 2016 valuation:

Longevity Assumptions	31 March 2016	31 March 2019
Baseline Longevity	Club Vita	Club Vita
Future improvements	CMI2013, Peaked, 1.25% p.a. long term	CMI2018, Smoothed, 1.25% p.a. long term

The proposed longevity assumptions result in the following typical future life expectancies from age 65 (figures for 2016 shown for comparison):

Assumed Life Expectancy	31 March 2016	31 March 2019
Male		
Pensioners	22.3 years	21.2 years
Non-pensioners	23.9 years	21.9 years
Female		
Pensioners	24.5 years	23.6 years
Non-pensioners	26.5 years	25.0 years

Non-pensioners are assumed to be aged 45 at the valuation date

Other demographic assumptions

The other proposed 2019 valuation demographic assumptions are set out below:

Demographic Assumptions	
Retirements in normal health	We have adopted the retirement age pattern assumption as used for the purpose of the 2016 LGPS cost cap valuation. Further details are available on request.
Death in Service	See sample rates below
Retirements in ill health	See sample rates below
Withdrawals	See sample rates below
Promotional salary increases	See sample increases below
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The future dependant of a male member is assumed to be 3 years younger than him and the future dependant of a female member is assumed to be 3 years older than her.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008).
50:50 option	We have assumed no take-up of the 50:50 option.

Sample rates for demographic assumptions

Males

Age	Salary Scale	Death Before Retirement FT & PT	Withdrawals FT	Withdrawals PT	Ill Health Tier 1 FT	Ill Health Tier 1 PT	Ill Health Tier 2 FT	Ill Health Tier 2 PT
		Incidence per 1000 active members per annum						
20	105	0.21	252.69	439.47	0.00	0.00	0.00	0.00
25	117	0.21	166.91	290.28	0.00	0.00	0.00	0.00
30	131	0.26	118.43	205.93	0.00	0.00	0.00	0.00
35	144	0.30	92.53	160.88	0.10	0.07	0.02	0.01
40	150	0.51	74.50	129.48	0.16	0.12	0.03	0.02
45	157	0.85	69.98	121.60	0.35	0.27	0.07	0.05
50	162	1.36	57.68	100.12	0.90	0.68	0.23	0.17
55	162	2.13	45.42	78.88	3.54	2.65	0.51	0.38
60	162	3.83	40.49	70.28	6.23	4.67	0.44	0.33
65	162	6.38	0.00	0.00	11.83	8.87	0.00	0.00

Females

Age	Salary Scale	Death Before Retirement FT & PT	Withdrawals FT	Withdrawals PT	Ill Health Tier 1 FT	Ill Health Tier 1 PT	Ill Health Tier 2 FT	Ill Health Tier 2 PT
		Incidence per 1000 active members per annum						
20	105	0.12	227.37	252.63	0.00	0.00	0.00	0.00
25	117	0.12	152.99	169.97	0.10	0.07	0.02	0.01
30	131	0.18	128.25	142.46	0.13	0.10	0.03	0.02
35	144	0.30	110.69	122.91	0.26	0.19	0.05	0.04
40	150	0.48	92.12	102.26	0.39	0.29	0.08	0.06
45	157	0.77	85.97	95.41	0.52	0.39	0.10	0.08
50	162	1.13	72.48	80.35	0.97	0.73	0.24	0.18
55	162	1.49	54.08	60.02	3.59	2.69	0.52	0.39
60	162	1.90	43.58	48.31	5.71	4.28	0.54	0.40
65	162	2.44	0.00	0.00	10.26	7.69	0.00	0.00

Financial assumptions

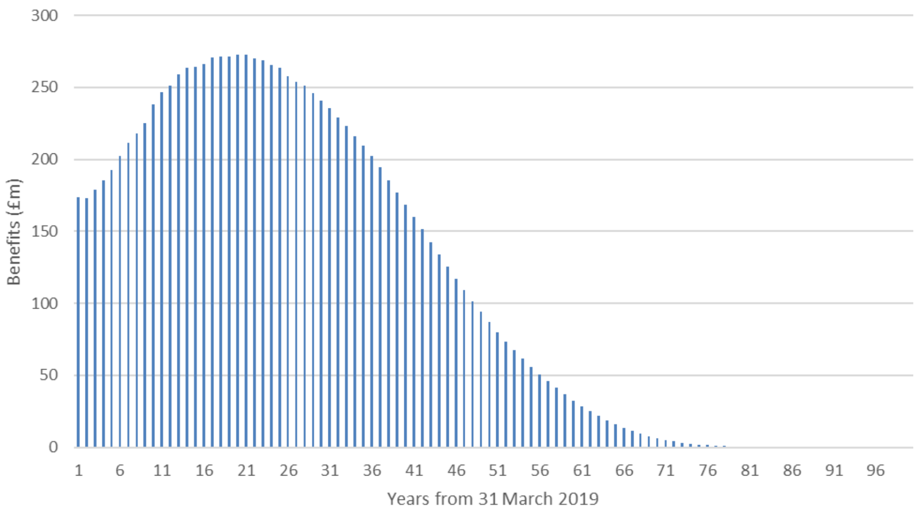
The key financial assumptions used to assess the funding position as at 31 March 2019 are set out below.

Salary and Benefit Increases

The table below details the salary increase, CARE revaluation rate and benefit increase assumptions at 31 March 2019. The equivalent assumptions used in the 2016 valuation are shown for comparison.

Financial Assumptions	31 March 2016	31 March 2019
Benefit increases and CARE revaluation (CPI) (% p.a.)	2.1%	2.3%
Salary increases (% p.a.)	2.4% (CPI + 0.3%)	3.0% (CPI + 0.7%)

Combining the membership data and the demographic and financial assumptions described above allows us to project the future benefit payments from the Fund for all benefits accrued up to 31 March 2019. The chart below shows this projection.

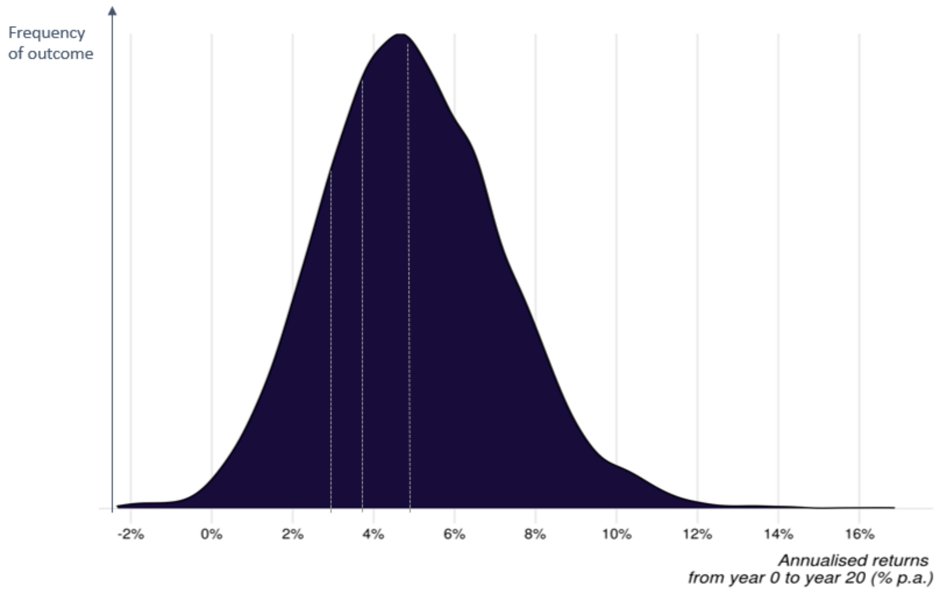


Investment Return

For the purpose of measuring the funding position, we need to be able to compare the value of the Fund's assets against the value of all these future benefit payments (the liabilities). To be able to place a value on these payments in today's money we need to make an assumption about the future investment returns that will be generated from the Fund's assets after the valuation date. The higher the assumed return, the lower the liability value and therefore the higher the funding level.

The value placed on the liabilities, and hence the funding level, is extremely sensitive to the investment return assumption. Whilst there is a requirement for this assumption to be prudent, there is a range of assumptions that the Fund could consider meets this prudence criteria. We believe the valuation outputs are more meaningful when stakeholders can understand the likelihood, and hence the level of prudence, attached to them.

Using the Fund's current benchmark investment strategy (for Investment Strategy B and C) and running 5,000 simulations of our proprietary economic model, the Economic Scenario Service (ESS), we have generated a distribution of possible future annual investment returns over the 20 years from the valuation date.



Details of the investment strategy and assumptions underlying the ESS model can be found in the Appendix.

From the above chart, we can derive that:

- There is a 50% likelihood of the Fund's investments achieving at least an annual return of 4.2% p.a. over the next 20 years;
- There is a 70% likelihood of the Fund's investments achieving at least an annual return of 3.2% p.a. over the next 20 years; and
- There is an 80% likelihood of the Fund's investments achieving at least an annual return of 2.7% p.a. over the next 20 years.

4.2% p.a. would not be an appropriate investment return assumption for the purpose of the valuation as this represents our 'best estimate' of future investment returns and therefore does not include a margin for prudence.

For the purpose of reporting a single funding level and funding surplus/deficit for the 2019 valuation in this report, we have selected the investment return assumption which has an associated 70% likelihood, namely 3.2% p.a..

The assumption used in the valuation as at 31 March 2016 was 3.8% p.a. (note that this was derived using a different method from that described above).

Financial Assumptions	31 March 2016	31 March 2019
Investment return (% p.a.)	3.8%	3.2%

Employer Contributions

The ESS model is also used in our approach to setting employer contribution rates (set out in guides 5 and 6 of our 2019 valuation toolkit). This approach does not rely on a single set of assumptions but involves the projection of the employer's future benefit payments, contributions and investment returns under 5,000 future economic scenarios. In this modelling, inflation (and therefore benefit payments and contributions) and investment returns for each asset class (and therefore investment return) are variables and take different values in each projection.

Further details on the assumptions required to set employer contribution rates are set out in guide 8 (Financial Assumptions) of the 2019 valuation toolkit. The assumptions which comprise each employer's Funding Target will be set out in the Funding Strategy Statement.

Comment on the proposed assumptions for the 2019 valuation

As required for Local Government Pension Scheme valuations, our approach to this valuation must include a degree of prudence. For the purpose of measuring the funding position, this has been achieved by explicitly allowing for a margin of prudence in the future investment return assumption.

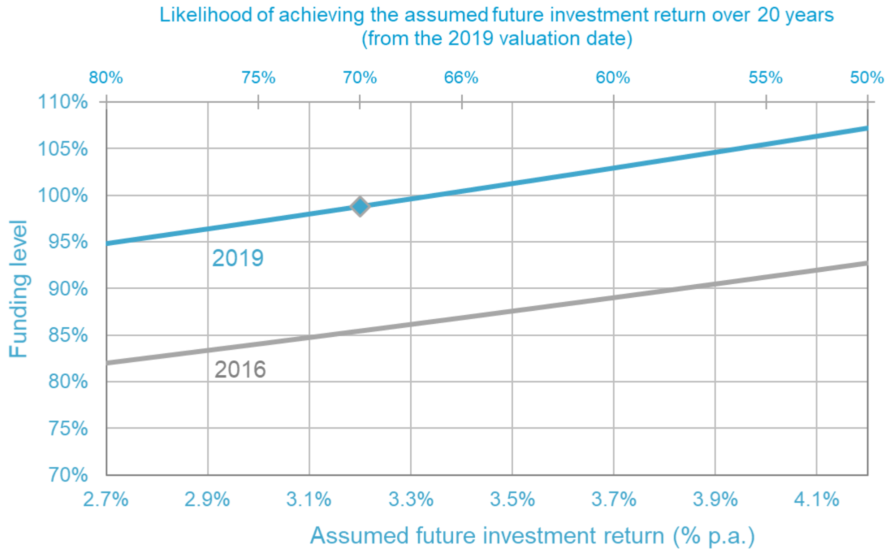
We believe that all other proposed assumptions represent the "best estimate" of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than best estimate.

4 Funding position as at 31 March 2019

Understanding the likelihood associated with certain levels of assumed future investment returns (based on the information discussed in Section 3) means we can better understand the Fund's funding position.

The following chart shows how the funding level varies with the future investment return assumption. For comparison, the funding level associated with the same choice of investment return assumption at the 2016 valuation is also shown.



From this chart, we can see that:

- The funding position at 31 March 2019 would be 100% if future investment returns were assumed to be 3.4% p.a.. The likelihood of the Fund's assets yielding at least this return is around 66%.
- Conversely, if future investment returns are on average 2.7% p.a. over the long term then the Fund currently holds sufficient assets to meet 95% of the accrued liabilities. The likelihood of achieving at least this level of future investment return is 80%.

It can be seen from the above chart that for any given expected future investment return, the funding position of the Fund has improved since the previous actuarial valuation in 2016. This is mainly a result of the strong investment performance of the Fund over the period from 31 March 2016 to 31 March 2019.

Whilst this chart gives the Fund a better understanding of the funding position than a single funding level, the Fund is still required to report a single funding balance sheet. Using the assumptions outlined in Section 3, including the selected investment return assumption of 3.2% p.a., the reported funding position of the Fund at the valuation date is summarised below. The asset figures are the market value of the Fund's assets as at 31 March 2019. The results at the 2016 formal valuation are shown for comparison.

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	1,663	2,028
Deferred Pensioners	772	1,111
Pensioners	2,185	2,513
Total Liabilities	**4,620**	**5,652**
Assets	**4,153**	**5,583**
Surplus / (Deficit)	**(467)**	**(69)**
Funding Level	**90%**	**99%**

There has been an improvement in the reported funding level of the Fund from 90% to 99% and a reduction in the funding deficit from £467m to £69m.

It is critical to note that the reported funding level does not directly drive the contributions that will be set. A robust funding plan will be set for each employer which considers how the assets and liabilities will evolve over time in different economic scenarios.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2019, however the limitations of these figures should be noted.

The funding position is assessed using a single set of assumptions about the future and is very sensitive to the choice of assumptions (see Section 5). The funding level is also volatile and will change as the market value of the assets held by the Fund changes.

Although the funding level is limited in nature, tracking it can help the Fund gain an understanding of the factors that cause their pensions costs to change over time. As part of the valuation exercise, we analyse the experience of the Fund and its membership since the previous formal valuation and quantify the impact of this experience on the funding surplus or deficit. The analysis helps to identify where changes may be needed in some assumptions or the Fund may wish to review existing risk management policies.

Since the previous valuation, various events have taken place which affect the funding position of the Fund.

Financial Markets experience

Investment returns

Investment returns	Expected	Actual	Difference	Impact on funding position
Over 3 year period	11.9%	33.3%	21.4%	Positive
Annual	3.8%	10.0%	6.2%	Positive

The Fund has experienced better than anticipated investment returns. The investment return in excess of the 2016 valuation assumption serves to 'pay back' a greater portion of the deficit than expected. Therefore, all other things being equal, this improves the funding position.

Future inflation expectations

Future inflation expectations	2016	2019	Difference	Impact on funding position
Expected CPI inflation (p.a.)	2.1%	2.3%	0.2%	Negative

Future inflation expectations	2016	2019	Difference	Impact on funding position
Expected CPI inflation (p.a.)	2.1%	2.3%	0.2%	Negative

Long term expectations for Consumer Prices Index (CPI) inflation have increased slightly since 2016. Taken in isolation, this slightly worsens the funding position.

Fund expenses

The Fund's expenses (in relation to non-investment activities) over the last 3 years have totalled £9.6m. This figure is equivalent to 0.6% when expressed as a percentage of pensionable pay which is slightly higher than the last valuation (0.5% of pay). Unless otherwise instructed, we propose to make allowance for the Fund's expenses by adding an allowance of 0.6% of pay to employer contribution rates payable from 1 April 2020.

Membership experience

The areas of membership experience that have had the greatest impact on the surplus/deficit position of the Fund are set out below:

	Expected	Actual	Difference	Impact on funding position
Pre-retirement experience				
Early leavers (no.of lives)	8,661	12,409	3,748	Positive
Ill-health retirements (no.of lives)	268	168	(100)	Positive
Salary increases (p.a.)	3.1%	3.2%	0.1%	Negative
Post-retirement experience				
Benefit increases (p.a.)	2.1%	2.1%	(0.0%)	Positive
Pensions ceasing (£m)	10,175	10,404	229	Positive

Regulatory experience

Indexation and equalisation of Guaranteed Minimum Pensions (GMP)

In their January 2018 consultation response, HMT stated that their preferred long term indexation solution of converting GMP to scheme pension will also meet the requirements of equalisation.

For the 2019 valuation we have assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This has served to increase the value placed on the liabilities.

LGPS cost sharing mechanism and the McCloud court case

Following the results of the first LGPS cost sharing valuation (communicated in Autumn 2018), it was expected that benefit improvements would be granted in respect of future benefit accrual from 1 April 2019. It was estimated that the improvement would cost 0.9% of payroll for a typical LGPS employer. This change in the LGPS benefit structure has been put on hold whilst the recent age discrimination cases in public sector pension schemes (known as the “McCloud” case) are resolved. The benefits earned by some members since 1 April 2014 could be materially improved as a result of the McCloud case, increasing the value of the Fund’s liabilities.

Based on advice issued by the Scheme Advisory Board in May 2019 we have based our 2019 valuation calculations on the benefits as currently set out in the Regulations. That is, we have not made an allowance for the impact on (past and future service) liabilities of either the first LGPS cost sharing valuation or McCloud court case.

Comments on employers

Every employer is valued separately based on their own membership data as part of the valuation and their change in funding position will therefore vary compared to that of the whole fund based on their individual experience. This information will be available later in the valuation process.

Reconciling the change in the funding position

Quantifying and combining the impact of financial markets, membership and regulatory experience on the Fund’s assets and liabilities provides an overall insight into how the funding position has changed between valuations. This is detailed in the following table:

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	**4,153**	**4,620**	**(467)**
Cashflows			
Employer contributions paid in	444		444
Employee contributions paid in	108		108
Benefits paid out	(521)	(521)	0
Net transfers into / (out) of the Fund*	(7)		(7)
Other cashflows (e.g. Fund expenses)	(10)		(10)
Expected changes in membership			
Interest on benefits already accrued		579	(579)
Accrual of new benefits		512	(512)
Membership experience vs expectations			
Salary increases greater than expected		5	(5)
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	17	30	(13)
Ill health retirement strain		(19)	19
Early leavers less than expected		(12)	12
Pensions ceasing less than expected		(2)	2
Commutation less than expected		5	(5)
Impact of GMP equalisation		6	(6)
Other membership experience		(99)	99
Changes in market conditions			
Investment returns on the Fund's assets	1,399		1,399
Changes in future inflation expectations		145	(145)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(11)	11
Change in longevity assumptions		(200)	200
Change in salary increase assumption		33	(33)
Change in discount rate		582	(582)
This valuation at 31 March 2019	**5,583**	**5,652**	**(69)**

* We have insufficient data to value the impact on the liabilities as a result of all transfers in/out.

5 Sensitivity analysis of the funding position

The valuation funding position results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made as at 31 March 2019 were exactly borne out in practice then the liability results presented in this document would represent the true cost of providing benefits from the Fund as it currently stands at 31 March 2019.

However, no one can predict the future with certainty and future experience will not exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund which should be identified and, where possible, the financial significance should be quantified. Thereafter the Fund can assess how (or if) these risks can then be controlled or mitigated and put in place monitoring to assess whether any mitigation is actually working.

In this Section we quantify how sensitive the funding position as at 31 March 2019 is to the assumptions made about the future.

Financial assumptions

Sensitivity of the funding position to future investment returns

The amount of assets needed by the Fund to meet the cost of its accrued benefits (liabilities) is extremely sensitive to the assumption for future investment returns. This was considered in Section 4.

Sensitivity of the funding position to future inflation

Pensions (both in payment and in deferment) in the LGPS increase annually in line with CPI. Furthermore, benefits accrued in the CARE scheme are revalued annually in line with CPI. If future CPI inflation is higher than our assumption as at 31 March 2019 then the value of the benefits will be higher than we have set out in Section 4.

To help understand the impact of CPI being different from our assumption, we have shown the effects on the funding position of varying the benefit increases and CARE revaluation assumption below.

CPI Assumption	Surplus / (Deficit)	Funding Level
% pa	**(£m)**	**%**
2.1%	76	101%
2.3%	(69)	99%
2.5%	(214)	96%

Employer contribution rates

The above analysis focuses on financial risk to the funding position as measured at 31 March 2019. Our approach to setting employer contribution rates recognises the uncertainty around future investment returns and inflation and therefore does not rely on a single set of financial assumptions.

Demographic assumptions

Sensitivity of the funding position to life expectancy

The main area of demographic risk is people living longer than expected. We have shown below the high-level impact of people living longer than currently expected by using a more prudent assumption for future longevity improvements. The proposed valuation assumption assumes that in the longer-term mortality rates will fall at a rate of 1.25% each year. The more prudent assumption shown for this sensitivity analysis assumes that mortality rates will fall at a rate of 1.5% each year in the longer term.

Long term rate of improvement	Surplus / (Deficit)	Funding Level
% pa	**(£m)**	**(£m)**
1.25%	(69)	99%
1.50%	(119)	98%

Other demographic risks to consider

There are other risk factors which would have an impact on the funding position. Examples of these include the level of ill health retirements, withdrawals from the scheme and take up of the 50:50 option. These are probably unlikely to change in such a way that would rank them as amongst the highest risks facing the Fund and therefore we have not sought to provide further quantification of their risk.

Other risks

Regulatory, Administration and Governance risks

As well as financial and demographic risks, the Fund also faces:

- Regulatory risks – central government legislation could significantly change the cost of the scheme in the future; and:
- Administration and governance risk – failures in administration processes could lead to incorrect data and inaccuracies in the actuarial calculations.

The risks should be considered and monitored by the Fund as part of its ongoing risk management framework.

Resource and environment risks

The Fund is exposed to risks relating to future resource constraints and environmental changes. These risks may prove to be material.

We have not sought to quantify the potential impact of these risks for the purpose of the results shown in this report, given the complexity and uncertainty involved. Further analysis is available to the Fund to illustrate the future impact of adverse climate outcomes.

Given their potential impact, the Administering Authority may wish to seek direct advice on resource and environment risks.

6 Next steps

The next steps in the process are as follows.

- All parties to understand the whole fund reported funding position result and agree the assumptions on which it is based, discuss any questions or issues before moving on to the next stage of the valuation process. This includes the Fund identifying any areas of risk that it is concerned about and wishes to explore further and understand how the risk can be identified, quantified, mitigated and monitored.
- All parties to understand that the whole fund reported funding position does not directly drive the contributions that will be set for individual employers.
- We will agree the parameters with you (funding target, time horizon, probability of reaching target) for the assessment of each employer's proposed contribution rate. When we present you with these results, we will set out the contribution rates that each employer should pay for the next three years from 1 April 2020 based on these parameters.
- We will measure the valuation funding position that will be reported for each individual employer that participates in the Fund.
- For some employers, the contribution rate that they should pay in principle may be different to what they will actually pay in practice. Any deviation by the Administering Authority should only be based on each employer's own circumstances. The Administering Authority may consider a range of factors including (but not limited to) each employer's perceived security, pooling arrangements or budgetary constraints. We expect there to be a consultation period where you gather together all of these issues and come back to us with a set of final agreed contribution rates for each employer.
- We understand that you may require additional input from us before agreeing the final contribution rates. You may want us to look at the viability of different contribution strategies that are proposed by individual employers.
- Once a set of final contribution rates have been agreed for all employers, we will provide you with a final valuation report which will clearly set out the final valuation results and will meet all the relevant regulatory requirements. Included in this report will be the Certificate of Rates and Adjustments, which will certify the minimum contribution rates to be paid by each employer for the three-year period beginning on 1 April 2020. This final valuation report must be provided to you no later than 31 March 2020.

Appendix

Appendix 1 – Projecting the Fund's Assets

The following investment strategy has been used to set the future investment return assumption as at 31 March 2019:

% allocation	Investment Strategy B
Infrastructure (equity)	5%
Overseas equities	20%
Private equity	5%
Total growth assets	30%
Alternatives	5%
Hedge funds	5%
Multi asset credit	20%
Property	10%
Total income generating assets	40%
Index-linked gilts	30%
Total protection	30%
Grand Total	100%

Appendix 2 – Economic Scenario Service

The following figures have been calculated using 5,000 simulations of the Hymans Robertson Economic Scenario Service, calibrated using market data as at 31 March 2019. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

The current calibration of the model indicates that a period of outward government bond yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) yield to rise from -2.1% (1.5%) to 0.8% (4.0%)

Pension Fund Committee
13 September 2019
Item 3 Appendix B

HEALTH WEALTH CAREER

CHESHIRE PENSION FUND

INVESTMENT STRATEGY REVIEW CONSIDERATIONS AND TIMESCALES

SEPTEMBER 2019

MAKE TOMORROW, TODAY MERCER

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AGENDA

CURRENT INVESTMENT STRATEGY

- The current investment strategy is split into four “buckets” which adopt a different risk profile for a sub-set of the Fund’s employers, based on their funding level, maturity and appetite for risk.
- Growth strategies A & B contain dynamic risk management triggers.
- A summary of the existing investment strategy in place across the four “buckets” is outlined below:

	Growth Strategy A	Growth Strategy B	Medium Growth	Gilts only
Growth	**60%**	**50%**	**50%**	**-**
Equity	*30%*	*20%*	*20%*	-
Absolute Return	*15%*	*15%*	*15%*	-
Illiquid Alternatives	*15%*	*15%*	*15%*	-
Diversifying & Matching	**40%**	**50%**	**50%**	**100%**
Diversifying Fixed Income	*20%*	*20%*	*20%*	-
Liability Aware	*20%*	*30%*	*30%*	*100%*

A key outcome of the initial results of the actuarial valuation will be to consider whether the investment strategy in place remains appropriate – to ensure a fully joined up funding and investment plan.

INVESTMENT OBJECTIVES

EQUITY

- Exposure to and outperform global equity markets.
- Contains high conviction active strategy with meaningful outperformance target.

ABSOLUTE RETURN

- Provide significant real returns (currently CPI + 5%).
- Lower volatility that equity.
- Low correlation with equity (beta).
- Preserve capital at times of stress.

ILLIQUID ALTERNATIVES

- Long term return in excess of public equity markets.
- Access to assets that provide a link to inflation.

FIXED INCOME

- Unconstrained exposure to fixed income.
- Focus on return generation.
- Flexible duration.

LIABILITY AWARE

- Access to assets which provide liability matching characteristics such as movements in interest rates and inflation.

KEY REMAINING RISKS

The Fund has made great progress in reducing investment risk with the investment strategy.

The key risks that remain to be addressed are:

1. **Inflation risk**
2. **Forced seller risk (i.e. Fund becoming cashflow negative)**

These risks can be addressed by investing in asset classes that are cashflow generative and/or provide inflation exposure.

In order to address the above risks, the Fund will therefore need to consider the following:

1. **Absolute Return Portfolio** - consider investing more in private asset classes (e.g. private debt, infrastructure, property). This will still offer uncorrelated returns compared to the rest of the strategy but can also provide income as well as inflation protection

2. **Fixed Income** – current holdings do not distribute cashflow. A buy and maintain corporate bond strategy can be tailored to the Fund’s cashflow requirements whilst providing yield with a higher degree of certainty

3. **Liability Aware** – it is possible to provide more inflation protection for the same or lower capital outlay

Once the Fund has established the fundamental building blocks behind the Investment Strategy, we can then look to refresh the employer strategies.

Consideration to be given to Central’s sub-fund launch timetable

KEY CONSIDERATIONS

1. Addressing the remaining risks

As detailed on the previous slide, the key areas that the investment strategy should look to address is :

- Inflation risk
- Cashflow negative

2. Review of employer bucket investment strategies

Refresh the existing strategies, taking into account new information from the 31 March 2019 valuation and desired building blocks of the investment strategy. We will also review the funding level triggers for the underlying strategies.

3. Equity Portfolio

Reconsider the current equity portfolio:

- Is active management still appropriate for the Fund?
- In light of the continuous fall in sterling, should the Fund consider taking a prudent approach to review the current currency hedging position.

4. Responsible Investment

Consider how RI values and beliefs including those expressed by the Committee could be incorporated and represented in the investment strategy statement which will require publishing by the Fund.

PROJECT OVERVIEW AND DRAFT PROJECT PLAN

	STAGE	DESCRIPTION	PROPOSED TIMETABLE
SET THE SCENE	Planning of strategy review	Consider proposed approach and agree priorities	13 September 2019
TRAINING	Training and advice prior to Committee decision making	Training to cover: • Review of investment strategy proposal ahead of 6 December 2019 meeting.	22 November 2019
ADVICE	Key initial advice and Committee decision point	Advice to be provided on risk management options and cash flow as well as a draft Investment Strategy Statement for consideration.	6 December 2019
REFINE	Refine advice	Taking account of views of Committee in December 2019, refine investment strategy advice as appropriate Review employer buckets and de-risking trigger advice using updated 31 March 2019 actuarial valuation data. Final sign off of updated governance booklet, Investment Strategy Statement and Responsible Investment Policy	Valuation results to Committee: 14 February 2020 Investment Advice: 13 March 2020
IMPLEMENTATION	Implementation consideration	To include any necessary consultation with Central Pool	Q2 –Q4 2020

KEY DATES

Description	Proposed Timetable
ISC Meeting	6th September 2019
Strategy Employer Review	12th September 2019
Committee Meeting	13th September 2019
Central Pool SAA Review	Mid-Sept
Training	22nd November 2019
ISC Meeting	15th November 2019
Committee Meeting	6th December 2019
ISC Meeting	14th February 2020
Committee Meeting	13th March 2020

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