CLWYD PENSION FUND COMMITTEE
13 JUNE 2018

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 10.00am on Wednesday, 13 June 2018.

PRESENT: Councillor Dave Hughes (Chairman)
Councillors: Ted Palmer, Ralph Small, Haydn Bateman, Billy Mullin (until item 9).

CO-OPTED MEMBERS: Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), Mr Steve Hibbert (Scheme Member Representative

ALSO PRESENT (AS OBSERVERS): Mr Mark Owen (PFB Employer Representative), Mr Phil Pumford (PFB Scheme Member Representative)

APOLOGIES: Councillor Nigel Williams, Colin Everett (Chief Executive) and Helen Burnham (Pension Administration Manager)

IN ATTENDANCE:

Advisory Panel comprising: Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – JLT Group), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Sandra Beales (Principal Pension Officer) – joined at item 7, Kerry Robinson (Employer Liaison Team), – joined at item 7, Nick Buckland (Fund Investment Consultant – JLT Group), Matthew Edwards (Welsh Audit Office), Peter Worth (Worth Technical Accounting Solutions Ltd) and Megan Fellowes (Apprentice – Mercer - taking minutes).

The Chairman welcomed Matthew Edwards and Peter Worth who has been assisting the Fund with the preparation of the annual accounts.

1. **DECLARATIONS OF INTEREST (including conflicts of interest)**

No new conflicts were declared.

2. **APPOINTMENT OF VICE CHAIR**

The Chairman notified the Committee of his appointment as Chair of this Committee at the recent Flintshire County Council meeting, and in accordance with the Council's Constitution, this also meant he was the duly appointed Member of the Joint Governance Committee (JGC) for the Wales Pension Partnership (WPP). The Chairman highlighted that the Vice Chair position for the Pension Fund Committee was a matter for decision by the Committee and this person would also be the Deputy for the Wales Pension Partnership (WPP). Councillor Bateman was nominated for the role of Vice Chair.

RESOLVED:

This appointment was agreed by the Committee.

3. **MINUTES**

The minutes of the meeting of the Committee held on 21 March 2018 were submitted. The Chair thanked Miss Fellowes on the continued high standard of the minutes.

RESOLVED:

It was agreed the minutes could be received, approved and signed by the Chairman.

4. **CLWYD PENSION FUND ACCOUNTS 2017/18**

Mr Ferguson, the Corporate Finance Manager, introduced this item by explaining his role having legal responsibility for the administration of finance and for the submission of accounts on time. He explained a change in legislation resulting in the Pension Fund accounts now being separate to the Council's main accounts. As a result of this, the Pension Fund Committee was now responsible for the formal agreement of their own accounts, whereas in the past this was a responsibility of Council as they were part of the Council's accounts.

The Chairman then passed this item over to Mr Worth, an independent consultant appointed to prepare the Fund accounts for the current year until there is a permanent replacement to a vacant Finance Team post. Mr Worth gave a brief introduction on his experience and current role in Clwyd Pension Fund and clarified that the draft annual accounts are to be submitted to the Wales Audit Office (WAO) by 15th June 2018. WAO will commence the audit in June/July 2018.

The Chairman added that it is important to look into the style, format and quality of the accounts.

Mr Worth outlined that the accounts are to be prepared in line with the CIPFA Code of Practice (“The Code”) where each year a new code is issued reflecting the changes to the Accounting Standards. This is the first year that the accounts are being separated out from the Council accounts. Wales are now following the model adopted by Scotland three years ago i.e. LGPS accounts are no longer included in the administering authority’s separate statement of accounts but continue to be reported in the Annual Report by 1 December 2018 at the latest. The audited accounts will be included in the Fund’s Annual Report and submitted for approval by the Committee on 5th September 2018.

Mr Worth presented the accounts and emphasised certain elements to the Committee for background knowledge. The key points were:

- From slide 4, the normal contributions are the contributions that the employer makes for employees during the year

- Deficit contributions are to remove the funding deficit which is below 100% funded. In the 2016/17 accounts, the deficit contributions were c£28 million whereas in 2017/18 this figure was c£52 million. This reflects that three employers paid their deficit contributions upfront. This is an advantage because it’s a discounted figure (using the actuary’s discount rate) since the employer has paid three years of contributions in the first year.

- Augmentation contributions are the additional contributions such as for non-ill health early retirement i.e. the unreduced benefits before normal retirement age.

- A key figure is the change in market value of investments since this dictates the movement in market value which reconciles the opening and closing assets.

- Management expenses comprise administration costs, oversight and governance costs and investment management expenses. Some investment management costs are billed directly to the Fund but most of those costs are netted off the reported asset values.

Councillor Llewelyn Jones queried the difference between the net investment assets shown in the draft accounts and the total market value reported by JLT in their report as at 31 March 2018. Mrs Fielder stated that the valuation that JLT based the figures on was at a date prior to final close of the accounts. Therefore, some difference would be expected due to updated private market valuations and the fact that the Fund accounts include debtors and creditors. The Fund accounts are the final figures (once audited).

Mr Worth described the various notes on the accounts which are important to focus on, for example;

- Note 13 shows the investment assets and includes investment vehicles
- Notes 16-17 set out the instruments the Fund has for trading and the financial risks which impact them.

Outlined on page 29 of the Fund accounts is the actuarial present value under the IAS26 exercise. This is prepared under a different accounting standard as IAS26 and IAS19 are accounting standards which provide normalised valuation for pension liabilities across employers.

The Actuary's statement shows the liabilities at the last valuation e.g. a funding level of 76% in 2016 whereas the latest estimate is 89%.

Councillor Bateman wanted clarification for the change from c£318 million in 2016/17 down to c£87 million in 2017/18 in the net return on investments on page 1 of the Fund accounts.

Mr Worth clarified that the change in market value reflected the relative differences in returns over 2016/17 versus 2017/18 from global markets.

Mr Edwards from the WAO added that WAO will now audit the final accounts with a view to ensuring the proposed accounts represent a true and fair view, and they comply with the CIPFA requirements. They will then prepare their formal opinion will be reported back with the final accounts to the Committee for approval on 5th September 2018.

RESOLVED:

That Members noted the delegation of the approval of the accounts and commented on the draft unaudited Pension Fund accounts.

5. POOLING INVESTMENTS IN WALES

The Chairman informed the Committee that Cllr Mark Norris (RCT) is the new appointed Chair of the JGC for the calendar year and Cllr Peter Lewis (Powys) is the Vice Chair.

The Chairman commented that the WPP prospectus for the ACS is completed and will be submitted to the FCA for approval. It was a difficult process and required significant legal and adviser input. The Government has requested an update on the progress being made by the WPP and it is anticipated that 80% of assets across Wales will be transferred in 12 months' time.

Mr Latham highlighted the presentation from First State Investments on the Swansea Tidal Bay Lagoon to the Officer Working Group (OWG), at which members of the JGC were also present. The presentation was shared with the Committee together with the press release. He explained the OWG was not decision making and therefore this had been an information session and no formal agreement was therefore made on whether any investment would be made. Those in attendance did, however, come to a consensus that WPP would give their support to the project. Following the meeting a Press Release was released highlighting the WPP's support to the project.

Councillor Llewelyn Jones noted that the Fund should not be forced to invest into something that doesn't benefit the members so the appropriate due diligence needs to be done.

Mr Hibbert also noted the recent Court judgement which found in favour of the Government on whether they could direct Funds as to where they can invest. It was hoped that the Government would not force any schemes to invest in projects which weren't in the best interests of the members.

The Independent Adviser, Mrs McWilliam, who is also the Chair of the Clwyd Pension Fund Board, highlighted that the Board would as a matter of course be considering whether appropriate processes were being followed in relation to decision making by the WPP.

RESOLVED:

The Committee noted the report and discussed the progress being made by the Wales Pension Partnership.

6. **GOVERNANCE UPDATE**

Mr Latham led this item of the agenda and reported that everything is set in place for GDPR.

In relation to the Business Plan there were two changes to note:

- a deferral of the update in the Conflicts of Interest policy
- in relation to the staffing where three positions will be created (Pension Fund Accountant, Investment Officer and Governance & Business Support Officer) and the old Pension Finance Manager role will be removed.

These individuals are required to be experienced and fully qualified however; this comes at a higher cost. Therefore an increase in the staffing budget is requested.

Mr Hibbert asked whether it is necessary for the salaries to be tied to the Council pay scales/job evaluation for Flintshire or can alternative pay levels be provided. Mr Latham explained that this was something discussed at the recent PLSA conference as there are difficulties recruiting across all Funds. It was confirmed that the current recruitment process must follow the FCC job evaluation and therefore FCC pay scales but additional market supplements can be requested. Councillor Mullin commented that, as HR and Governance were part of his portfolio, he was aware of situations the existing pay policies restricted recruitment and where flexibility could be used for specialist staff. Mr Latham commented that he will be discussing it with the Chief Executive.

In terms of pay, Mr Owen noted that employees working for the Fund are Flintshire County Council (FCC) employees, therefore any changes to salaries will impact in terms of FCC employees generally under the policy. Any amendments to pay would be the responsibility of the council rather than the Committee and would be determined by the Chief Executive in consultation with others. .

Mrs McWilliam outlined that the budget setting for the Fund is delegated to the Committee meaning the Committee should decide the costs associated with staffing but that this has to be agreed in line with the Council's policies. Mr Ferguson added that if the Fund went out to market and recruited, then the FCC policy would need to be followed.

Councillor Rutherford commented that the Fund is committed to single status; therefore the only way that they can go beyond the pay scales determined by job evaluation is through market rate supplements.

After discussion it was agreed that the decision will be delegated to the Chair, the Chief Executive and the Corporate Finance Manager. The recommendation would be changed in the minutes.

The Chairman stated that he went to the Scheme Advisory Board Pension Committee Chair and Board Chair's meeting on 27 March and noted that the Fund is in a good position in relation to overall Governance and Oversight.

Mr Hibbert noted at PLSA meeting that there was an excellent session on passive investment by one of the Fund's active managers which covered the unintended consequences of passive investing. It covered the effect on markets and competition within markets and changed some of his previous views on passive investing.

RESOLVED:

(a) The Committee considered the Business Plan update and provide any comments.

(b) That the Committee agreed the two changes relating to the business plan i.e.

- Item G3 – The deferral of the approval of changes to the Conflict of Interest Policy until September 2018 (as part of the annual report and accounts)
- Item G5 – The increase in staffing budget for the Finance Team of a maximum of £60.6k per annum, which may be subject to further change as the review of the structure is progressed. The Committee agreed that any decision relating to further change as part of this review are delegated to the Chairman of the Pension Fund Committee, the Chief Executive and the Corporate Finance Manager.

7. **LGPS UPDATE**

The Chairman passed over to this item of the agenda to Mr Middleman to highlight anything particular about the LGPS current issues this quarter.

Mr Middleman noted that the Fund was discussing the implications of the recent introduction of Exit Credits which will be discussed in the Investment and Funding update agenda item. Also noted that the Section 13 2016 valuation comparison report from the GAD was expected at the end of July. The outcome will be reported on the September Committee but it was expected the Fund will have a clean bill of health.

RESOLVED:

The Committee members noted this report and made themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

8. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

The Chairman announced in Mrs Burnham's absence, Mrs Beales and Mrs Robinson will update the Committee on this item of the agenda. Mrs Beales noted that there has been a positive improvement in KPI's and improvements on the take up of Member Self-Service (MSS) but there are still some underlying issues affecting the turnaround times of services.

Mrs Beales gave the business plan update. With recent changes to the amendment regulations, the administration team have had an increase in their workloads such as the ability for deferred members to access benefits from age 55. This has resulted in members requesting estimated value of their benefits earlier than was previously the case.

Mrs Robinson stated that, due to these changes and the ongoing challenges with the overall quantity of work, the administration team are developing a full business case to review the team structure, including the number of staff. The business case will highlight the increased volume of work including due to the much increased complexities in the CARE scheme. The team acknowledge there are and will continue to be challenges due to difficulties in recruitment and training new members of staff. Accordingly external help on a project by project basis much like the work currently being done by Mercer is expected to be needed for some time.

Mrs Robinson added the following key examples of additional projects or changes, some of which are introducing efficiencies;

- The Fund is working towards HMRC deadlines in regards to the GMP reconciliation.
- All of the literature has been reviewed for GDPR compliance.
- The administration team reviewed every case since 2008 to identify if each member has a partner that is entitled (but hasn't yet been nominated) for the member's pension. If so, it is required for the Fund to contact the individual and let them know that there may be a pension available for them.
- Electronic benefit statements have been a success. The annual benefit statements are on target to go out at the end of August.

- A trivial commutation exercise will result in less work and create efficiencies since the Fund pays out a small lump sum amount. This project will commence for historic cases once it has been decided how it will resourced.

The Chairman thanked both Mrs Robinson and Mrs Beales for their work and their update on this item on the agenda and commented that it was clear that additional resources will be required.

RESOLVED:

(a) The Committee considered the update and provided comments;

(b) That the Workforce Review which was intended for quarter 4 and 2019/20 is brought forward to commence in quarter 2 2018/19 and

(c) That the Committee approved that the Chair, the Chief Executive and the Corporate Finance Manager under delegation approve further staffing resources upon receipt of a more detailed business case.

9. **INVESTMENT AND FUNDING UPDATE**

The Chairman passed over this item of the agenda to Mrs Fielder where she gave the Committee an investment update over the last quarter. .

Mr Middleman explained the introduction of Exit Credits. This is a fundamental change for employers who exit the Fund and their guarantors. The change in the LGPS Amendment Regulations means that if an employer is in surplus, the Fund must pay out the surplus if the employer exits the Fund. Previously the Fund was not required to pay out the surplus.

It is critical that employers are aware of this and all policies are aligned with the recent change – in particular in relation to outsourcings or the recent admissions of the wholly owned Local Authority Trading Companies where any commercial contracts could also be affected. It will require consultation on changes to the Funding Strategy Statement (FSS). The Fund is currently writing to all employers regarding the change and to notify of the forthcoming consultation. The correspondence will have a slightly different emphasis for some employers e.g. Councils who guarantee the liabilities of other employers in the Fund.

RESOLVED:

(a) The Committee considered and noted the steps proposed due to the Regulation changes for exit credits; and

(b) The Committee considered and noted the update for delegated responsibilities and provided comments.

10. **ECONOMIC AND MARKET UPDATE**

The Chairman passed this item of the agenda over to Mr Harkin who briefly updated the Committee with the following points;

- There has been a significant amount of critical events that have dominated the recent headlines, for example the US base interest rate has increased.
- The markets are staying 'risk on'.

- Nominal UK Government Bonds which had performed well during Q1 are now starting to fall away in terms of return.
- Sterling had appreciated against both the US Dollar and the Euro over the quarter.

RESOLVED:

(a) The Committee noted and discussed the Economic and Market Update 31 March 2018; and

(b) The Committee noted how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's assets portfolio.

11 **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Buckland led this item of the agenda and highlighted that the Fund's total market value over the past three months was c£1,777 million at the end of March, c£1,820 million at the end of April and approximately c£1,850 million at the end of May. JLT are still awaiting confirmation for this figure however there has been an increase of around 5% since the end of March.

Mr Buckland directed the Committee to page 209 which outlined the performance summary at the end of March. The three month performance was disappointing for the Fund which was driven mainly by equity returns being negative. However, overall the three year Total Fund return is ahead of the benchmark despite this.

Mr Buckland highlighted the Best Ideas Portfolio had not performed well in the three months to 31 March 2018. There was a decline of 4.1% making a total market value of c£188 million at the end of March 2018. However, as at the end of May 2018 there had been improved performance, which gave a total market value of c£198 million.

The overall in-house assets performed well as a whole over the past twelve months and three years, exceeding the benchmark across both time periods.

Mr Latham commented the performance of the LGPS as a whole was analysed at a meeting he previously attended and the Fund was the fourth best for equity returns across the LGPS. Equity is an asset class that the Fund usually struggles with in comparison to its peers so that was a pleasing outcome. Mr Buckland noted that exposure to emerging markets helped the Fund's performance in equities.

RESOLVED:

(a) The Committee noted and discussed the investment strategy and manager performance in the Investment Strategy and Management Summary 31 March 2018.; and

(b) The Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

12. **FUNDING AND FLIGHT PATH UPDATE**

The Chairman handed this item of the agenda over to Mr Middleman. He stated that the estimated funding level was 92% at the end of May which was ahead of target by 12%. Mr Middleman reminded the Committee on the following key points;

- The Flightpath critically involves managing risk and getting better outcomes for Funds in terms of employer contribution rates. This is critical as to why we are doing all the work currently on updating the equity protection.
- The FRMG have looked at different options on the equity protection and concluded a more dynamic strategy gives a better risk adjusted return and protection for the funding position in most scenarios.
- After discussing the approach with various parties it has been decided that the structure will be rolled on a daily rolling basis using a counterparty investment bank (JP Morgan). Mercer advised that this was the best option overall (in terms of value for money, flexibility and capability) after discussing with a number of parties.
- This will still be through the Insight investment vehicle and therefore as part of the Flightpath structure and was implemented on 24th May.
- Further details and training on the new strategy would be provided to the committee over the next few meetings as part of the training plan.

In terms of the Flightpath strategy, Councillor Llewelyn Jones asked for clarification in regards to the pooling of the strategy.

Mr Middleman agreed with Councillor Llewelyn Jones point on the complexity of the flightpath and it is important that WPP could accommodate the strategy before it was made part of the pool. This is some way off and due diligence on the approach to this would be required before it should be agreed to transition it into the pool. This was recognised by the pool operator as dialogue has been ongoing from the start.

RESOLVED:

(a) The Committee noted the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework; and

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(b) The Committee noted the new dynamic equity protection strategy now in place which puts the Fund in a good strategic position in the run up to the next Actuarial Valuation.

13. **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED:

That the press and public be excluded for the remainder of the meeting for the following item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

14. **EMPLOYER CARE PAY ISSUE**

The CPF Manager presented a report on an issue affecting payments to CPF members. The report included an assessment of the likely impact on the resources of the service whilst the issue was addressed

RESOLVED:

The Committee members noted this report and made themselves aware of the issue affecting a number of LGPS members, which will have a significant, albeit temporary, impact on the Administration Section's resources and therefore could impact services provided by that Section.

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that the next Committee meeting is on 5th September and there is a training day on 13th September.

The meeting finished at 1:50pm.

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Chairman

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Clwyd Pension Fund Accounts 2017/18
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

The report presents:-

- For member approval the final version of the Clwyd Pension Fund Statement of Accounts for the 2017/18 financial year, incorporating those changes agreed with Wales Audit Office (WAO) during the course of the audit.
- WAO's Audit of Financial Statements Report and Management Letter for the Clwyd Pension Fund Accounts.
- Letter of Representation for the Clwyd Pension Fund.

RECOMMENDATIONS	
1	That Members consider the WAO Audit of Financial Statements Report and Management Letter.
2	That Members approve the final version of the Statement of Accounts for the 2017/18 financial year.
3	That Members approve the Letter of Representation to the Clwyd Pension Fund.

REPORT DETAILS

1.00	**Annual Accounts**
	Governance
1.01	As previously reported the Clwyd Pension Fund accounts are now required to be reported separately from the main County Council accounts which means that they need to be subject to separate approval by Members. As explained at the last Committee, the Council have now resolved the delegation to approve the Pension Fund Accounts to the Clwyd Pension Fund Committee.

	Pension Fund Accounts
1.02	The audit of the 2017/18 accounts is now substantially complete, although the audit continues up until the point at which the accounts are formally signed off by the auditors.
1.03	A copy of the Statement of Accounts for 2017/18 is attached as Appendix 1 and these incorporate all changes agreed with WAO during the course of the audit.
1.04	WAO are required to provide an opinion and communicate relevant matters arising from the audit to the Committee charged with the governance of the Clwyd Pension Fund. Attached as Appendix 2 is the Audit of Financial Statements Report and Management Letter and WAO will be in attendance at the Pension Fund Committee to present this report.
1.05	The report highlights details of any significant issues arising from the audit together with recommendations from WAO, and also a summary of the corrections made to the financial statements from the draft stage.
1.06	The Letter of Representation requires the Committee to confirm the accuracy of the audit. In this letter, the Committee confirms to the WAO that all the information contained the financial statements is true and accurate and that all information has been disclosed. This is enclosed as Appendix 1 of the WAO report attached.
1.07	It is pleasing to note that the WAO are reporting that the Pension Fund's draft Statement of Accounts were prepared to a good standard with comprehensive and timely working papers and that there were no material weaknesses in our internal controls identified.

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	Note 17 of the Pension Fund accounts discloses the risks to which the Fund is exposed from using different types of financial instrument and how those risks are managed. These form part of the Pension Fund risk register (along with strategic and operational risks) which is subject regular scrutiny by the Committee, internal and external audit.

5.00	**APPENDICES**
5.01	Appendix 1 –Clwyd Pension Fund Statement of Accounts 2017/18 Appendix 2 –WAO Audit of Financial Statements Report and Management Letter.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None **Contact Officer:** Gary Ferguson, Corporate Finance Manager **Telephone:** 01352 702271 **E-mail:** gary.ferguson@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – 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 (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. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **Financial Audit -** The annual external audit of the Clwyd Pension Fund's Statement of Accounts. (f) **Material -** A concept used to inform judgements regarding the accuracy of the Clwyd Pension Fund's Statement of Accounts. The basis could be quantitative with an assigned value or qualitative and affected by issues that are legal, regulatory, or politically sensitive. (g) **Statement of Accounts / Final Accounts / Financial Accounts or Statements: -** The Clwyd Pension Fund's annual finance report providing details of the Pension Fund's financial performance and position at the end of the financial year. The format is prescribed to enable external comparison with other LGPS. (h) **Wales Audit Office -** works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes. (i) **Financial Year -** the period of 12 months commencing on 1 April

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND ACCOUNTS
for the year ended 31st March 2018

FUND ACCOUNT

2016/17 £000		Note	2017/18 £000
	Dealings with members, employers and others directly involved in the Fund		
(76,439)	Contributions	7	(105,079)
(2,797)	Transfers in		(4,839)
(79,236)			**(109,918)**
	Benefits payable :		
54,744	Pensions	8	56,739
10,413	Lump sums (retirement)		12,058
1,560	Lump sums (death grants)		1,800
66,717			**70,597**
5,586	Payments to and on account of leavers	9	5,689
72,303			**76,286**
(6,933)	**Net (additions)/withdrawals from dealings with members**		**(33,632)**
17,475	Management expenses	10	23,538
10,542	**Net (additions)/withdrawals including fund management expenses**		**(10,094)**
	Returns on Investments		
(7,432)	Investment income	11	(10,060)
0	Tax on investment income		
(310,601)	Change in market value of investments	12	(77,179)
(318,033)	**Net return on investments**		**(87,239)**
(307,491)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(97,333)**
(1,380,675)	**Opening net assets of the scheme**		(1,688,166)
(1,688,166)	**Closing net assets of the scheme**		**(1,785,499)**

NET ASSETS STATEMENT

2016/17 £000s		Note	2017/18 £000s
1,685,928	**Investment Assets**	**13**	1,781,826
1,685,928	**Net Investment Assets**		**1,781,826**
	Long-term debtors	**18**	29
4,545	**Debtors due within 12 months**	**18**	6,225
(2,307)	**Creditors**	**19**	(2,581)
1,688,166	**Net assets of the fund available to fund benefits at the end of the reporting period**		**1,785,499**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the actuary's report at page 27.

NOTE 1 - THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

General

Clwyd Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Flintshire County Council. The County Council is the reporting entity for the pension fund.

The LGPS, is a contributory defined scheme established by statute, which provides pensions and other benefits to employees and former employees of Flintshire County Council and the scheduled and admitted bodies in North East Wales. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The LGPS is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013, as amended;
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, as amended; and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions and investment earnings from the Fund's investments. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2018. Employers also pay contributions to the Fund based on triennial funding valuations. The last valuation was at 31st March 2016, the findings of which became effective on 1st April 2017. The valuation showed that the funding level increased from the previous valuation (31st March 2013) from 68% to 76%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over a 14 year period from April 2018. Currently employer contribution rates range from 8.0% to 30.5% of pensionable pay.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

In addition Clwyd Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund uses Prudential and Equitable Life as its AVC providers. AVCs are paid to the AVC providers by employers and provide additional benefits for individual contributors.

Governance

Flintshire County Council, as the pension fund administering authority, has delegated management of the Fund to the Clwyd Pension Fund Committee (the "Committee"). The Committee comprises five elected Members from Flintshire County Council and four co-opted members comprising two elected Members from unitary authorities, one other scheme employer representative and one scheme member representative, each with equal voting rights, access to training and to information. The Committee is responsible for both the administration and investment policy of the Fund. Following the separation of the pension fund accounts from the Council's accounts under the Accounts and Audit (Wales) Regulations 2018, the Council's Audit Committee delegated responsibility for approving the annual pension fund accounts to the Pension Fund Committee.

In accordance with the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. The Board met three times in 2017/18 and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

Investment Strategy

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Committee approved the Investment Strategy Statement on 21 March 2017. The Statement shows the Fund's compliance with the Myners principles of investment management.

The Committee has delegated the management of Fund's investments to eight core investment managers appointed in accordance the 2016 Regulations, and whose activities are specified in detailed investment management agreements and are monitored on a quarterly basis.

In March 2018, the Council approved the establishment of a Joint Governance Committee to oversee the pooling of the investments of the eight LGPS pension fund in Wales under the auspices of the Wales Pensions Partnership (WPP). WPP has appointed Link Fund Solutions Ltd (Link) to establish and run a collective investment vehicle for the sole use of the LGPS in Wales.

Membership

Membership of the LGPS is voluntary and employees are free to choose to whether to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in the Clwyd Pension Fund include:

- Scheduled bodies, that are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies that are organisations which participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 43 employer bodies within the Fund with active members (including Flintshire County Council) and over 46,000 members are detailed below.

2016/17 No.		2017/18 No.
40	Number of employers with active members	**43**
15,748	Active members	16,543
11,985	Pensioners receiving benefits	12,296
15,679	Deferred Pensioners	17,822
43,412		**46,661**

The scheduled bodies which contributed to the Fund during 2017/18 are:

Unitary Authorities:	Flintshire, Denbighshire, Wrexham.
Educational Organisations:	Coleg Cambria, Glyndwr University.
Town and Community Councils:	Acton, Argoed, Bagillt, Buckley, Caia Park, Cefn Mawr, Coedpoeth, Connah's Quay, Denbigh, Gwernymynydd, Hawarden, Hope, Marchwiel, Mold, Offa, Penyffordd, Prestatyn, Rhosllanerchrugog, Rhyl, Shotton.
Other:	North Wales Fire Service, North Wales Valuation Tribunal,

The admitted bodies contributing to the Fund are:

Aramark Ltd	Chartwells	Holywell Leisure Ltd
Aura Leisure & libraries Ltd	Civica UK	Home Farm Trust Ltd
Bodelwyddan Castle Trust	Cymrhyd Rhan	Newydd Catering & Cleaning Ltd.
Careers Wales	Denbigh Youth Group	Wrexham Commercial Services
Cartref y Dyffryn Ceiriog	Freedom Leisure	
Cartref NI	Glyndwr Students' Union	

NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31st March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. Some comparative figures have been reclassified to present the accounts in line with the 2017/18 Code.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed in the actuary's report at page 27 of these accounts.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.

- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.
- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In summary, accounting policies adopted are detailed as follows:

Fund Account – Revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013. Individual transfer values received and paid out have been accounted for on a cash basis.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Investment income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Fund Account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts dues but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold.

As Flintshire County Council is the administering authority for the Fund, VAT input tax is recoverable from all Fund activities including expenditure on investment expenses.

Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its administration, governance and investment management expenses in accordance with the CIPFA Guidance *Accounting for Local Government Pension Scheme Management Expenses* (2016).

Administration, oversight and governance expenses are also accounted for on an accruals basis. All Flintshire County Council staff costs are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.

Investment management expenses are accounted for on an accruals basis and include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees.

Net Assets Statement

Financial instruments

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

Financial liabilities are recognised at fair value on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash held in current accounts is kept to a minimum, all other cash deposits are included as part of investment balances in the net assets statement.

Actuarial present value of promised future retirement benefits

The actuarial value of promised future retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Code and IAS26. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a report from the actuary (see page 27).

Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016, but are disclosed as a Note only (see Note 20).

NOTE 4 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and set out in the actuary's report at page 27. These actuarial re-valuations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

NOTE 5 - ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (see page 27)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 10% decrease in future investment returns would reduce the current funding level of 76% to 68%. A 10% increase in the current valuation of estimated future pension liabilities would reduce the funding level to 70%, and a combination of the two would reduce the funding level to 60%.

Value of investments at level 3

The Pension Fund contains investments in private equity, hedge funds and pooled funds including property, infrastructure, timber and agriculture, that are classified within the financial statements as level 3 investments in note 15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance around the values reported in the Net Assets Statement. Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.

NOTE 6 - POST BALANCE SHEET EVENTS

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2018. Performance of global financial markets since this date may have affected the financial value of pension fund investments as reported in the Net Asset Statement, but do not affect the ability of the Fund to pay its pensioners.

NOTE 7 - ANALYSIS OF CONTRIBUTIONS RECEIVABLE

By employer

2016/17 £000s		2017/18 £000s
(26,936)	Administering Authority - Flintshire County Council	(27,479)
(48,150)	Scheduled bodies	(74,495)
(1,353)	Admitted bodies	(3,105)
(76,439)	**Total**	**(105,079)**

By type

2016/17 £000s		2017/18 £000s
(14,429)	**Employees contributions**	(14,829)
	Employers contributions:	
(32,257)	Normal contributions	(36,175)
(28,562)	Deficit contributions	(52,570)
(1,191)	Augmentation contributions	(1,505)
(62,010)	**Total employers' contributions**	**(90,250)**
(76,439)		**(105,079)**

The figure of £1.191m in 2016/17 was restated from Other income in the 2016/17 accounts to Contribution income in line with the Code.

NOTE 8 – BENEFITS PAYABLE

By employer

2016/17 £000s		2017/18 £000s
25,206	Administering Authority - Flintshire County Council	27,066
40,605	Scheduled bodies	42,330
906	Admitted bodies	1,201
66,717		**70,597**

By type

2016/17 £000s		2017/18 £000s
54,744	Pensions	56,739
10,413	Lump sums (retirement)	12,058
1,560	Lump sums (death grants)	1,800
66,717		**70,597**

NOTE 9 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £000s		2017/18 £000s
5,212	Transfer values paid (individual)	5,316
106	Refunds of contributions	101
268	Other	272
5,586	Total	**5,689**

NOTE 10 – MANAGEMENT EXPENSES

2016/17 £000s		2017/18 £000s
1,633	Oversight and Governance	1,399
14,474	Investment Management Expenses (see Note 10A)	20,570
1,368	Administration costs	1,569
17,475	**Total**	**23,538**

The Oversight and Governance costs include the fees payable to the Wales Audit Office for the external audit of the Fund of £39,000 for 2017/18 (£39,000 in 2016/17).

Note 10A – INVESTMENT MANAGEMENT EXPENSES

2016/17 £000s		2017/18 £000s
267	Transaction costs	941
11,200	Fund Management Fees	15,761
31	Custody Fees	31
2,976	Performance related fees	3,837
14,474	**Total**	**20,570**

Fund management fees increased significantly during the year due to a combination of additional investments being made during the year (which incurred management fees), increases in fees based on the fund value and regulatory requirements.

NOTE 11 - INVESTMENT INCOME

2016/17 £000s		2017/18 £000s
(3,236)	Private equity income	(4,593)
(1,584)	Pooled Investments	(2,509)
(2,501)	Pooled property investments	(2,540)
(111)	Interest on cash deposits	(17)
0	Other income	(401)
(7,432)	**Total**	**(10,060)**

NOTE 12 – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 1 April 2017 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2018 £000s
Bonds	198,621	0	0	5,751	204,372
Pooled investment vehicles	980,438	470,807	(459,470)	41,785	1,033,560
Pooled Property Funds	114,714	4,701	(12,174)	8,281	115,522
Infrastructure	31,761	13,428	(2,691)	(373)	42,125
Timber and agriculture	29,103	173	(1,908)	(1,596)	25,772
Private equity	170,389	40,675	(41,418)	18,753	188,399
Hedge Fund	127,279	20,000	(972)	4,578	150,885
	1,652,305	**549,784**	**(518,633)**	**77,179**	**1,760,635**
Other investment balances:					
Cash	33,623			0	21,191
Net investment assets	**1,685,928**			**77,179**	**1,781,826**

	Market Value 1 April 2016 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2017 £000s
Bonds	170,331	80,140	(64,003)	12,153	198,621
Pooled investment vehicles	745,393	87,547	(114,384)	261,882	980,438
Pooled Property Funds	109,233	7,968	(11,272)	8,785	114,714
Infrastructure	27,351	2,281	(5,365)	7,494	31,761
Timber and agriculture	25,937	219	(1,758)	4,705	29,103
Private equity	147,822	33,290	(38,335)	27,612	170,389
Hedge Fund	139,221	0	(553)	(11,389)	127,279
	1,365,288	**211,445**	**(235,670)**	**311,242**	**1,652,305**
Other investment balances:					
Cash	15,034			(641)	33,623
Net investment assets	**1,380,322**			**310,601**	**1,685,928**

The categories of asset have been restated in 2016/17 to align with the Code as stated in Note 2.

NOTE 13A – ANALYSIS OF INVESTMENTS

2016/17 £000		2017/18 £000
	Bonds	
	Overseas	
198,621	Corporate unquoted	204,372
	Pooled investment vehicles:	
	Overseas	
29,103	Timber and agriculture - unquoted LLP	25,772
234,467	Managed equity funds - quoted	117,023
3,018	Managed equity funds - unquoted	146,973
	Infrastructure	
13,043	Limited Liability Partnerships - quoted	11,764
18,718	Limited Liability Partnerships - unquoted	30,361
18,137	Liability driven investments - quoted	0
375,721	Liability driven investments - unquoted	400,005
82,747	Multi strategy investments - quoted	80,751
266,348	Multi strategy investments - unquoted	273,431
0	Fixed income funds - unquoted	15,378
	Pooled property investment vehicles	
0	Open-ended unquoted	42,578
114,714	Closed-ended LLP unquoted	72,944
	Private equity	
	Limited Liability Partnerships:	
17,966	Unquoted - Opportunistic funds	30,647
1,013	Quoted private equity funds	0
151,410	Unquoted private equity funds	157,751
123,725	**Hedge Funds unquoted**	150,885
3,554	**Hedge Funds quoted**	
1,652,305		**1,760,635**
33,623	Cash	21,191
1,685,928	**Total investment assets**	**1,781,826**
1,685,928	**NET INVESTMENT ASSETS**	**1,781,826**

NOTE 13B – ANALYSIS BY FUND MANAGER

2016/17 £000	%		2017/18 £000	%
393,858	23.9	Insight	400,005	22.7
198,621	12.0	Stone Harbor	204,372	11.6
183,475	11.1	Mobius	188,710	10.7
214,022	13.0	Investec	159,306	9.0
127,279	7.7	MAN FRM	150,885	8.6
106,336	6.4	Wellington	122,182	6.9
82,747	5.0	Pyrford	80,751	4.6
0	0.0	Blackrock	67,228	3.8
0	0.0	Permira	15,378	0.9
152,423	9.2	Private Equity	157,752	9.0
114,714	6.9	Property	115,522	6.6
31,761	1.9	Infrastructure	42,125	2.4
17,966	1.1	Opportunistic	30,647	1.7
29,103	1.8	Timber/Agriculture	25,772	1.5
1,652,305	**100.0**	**Total**	**1,760,635**	**100.0**

The UK holdings as at 31st March 2018 account for 31% of total investments at market value.

2016/17 £000	%		2017/18 £000	%
519,585	31	UK	554,152	31
1,132,720	69	Overseas	1,206,483	69
1,652,305	100		1,760,635	100

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

2016/17 £000	%	Manager	Holding	2017/18 £000	%
393,858	23.3	Insight	LDI Active 22 Fund	400,005	22.4
128,862	7.6	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	132,224	7.4
131,149	7.8	Investec	OEIC Global Strategic Equity Fund Sterling GBP	74,586	4.2

NOTE 14 – DERIVATIVES

No derivative instruments were held by Clwyd Pension Fund at 31 March 2018 or 31 March 2017.

NOTE 15 - FAIR VALUE OF INVESTMENTS

Fair Value – Basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Pooled Investment Vehicles	Level 1	Quoted market bid price on the relevant exchange	Not required	Not required
Infrastructure	Level 1	Published bid price ruling on the final day of the accounting period	Not required	Not required
Unquoted bond funds	Level 2	Closing bid-market price for the underlying assets in each sub-fund subject to any premiums or discounts	Net Asset value (NAV)-based pricing set on a forward pricing basis	Not required
Unquoted Pooled Investment Vehicles	Level 2	Closing bid price where bid and offer prices are published. Closing bid price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted pooled investment vehicles	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	Valued net of unrealised gains/losses on hedging	Internal rate of return
Pooled property funds	Level 2	Bid market price	Existing lease terms and rentals, tenant's covenant strength, lease length, transactional activity in the sector	Not required
Hedge Fund	Level 2	Valued monthly using closing bid price where bid and offer prices are published or closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Property Funds	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	EBITDA achieved compared with forecast
Infrastructure	Level 3	Valued using discounted cashflow techniques to generate a net present value	Discount rate and cashflows used in the models	Rates of inflation, interest, tax and currency exchange
Timber and agriculture	Level 3	NAV of underlying funds using a mixture of cost, income and sales comparison approaches depending on the maturity of the investment. Valued annually, subject to quarterly adjustments based on harvest	Productive area, current and forecast prices and costs, marketing and harvest constraints, growth rates and discount rates	Market price for timber and agricultural product, land values and discount rates
Private equity and hedge fund	Level 3	Valued quarterly at NAV using the market approach using quarterly financial statements in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	Valuations could be affected by material events between the date of the financial statements provided and the pension fund's reporting date, changes to cashflows and differences between audited and unaudited accounts

Investments have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - where quoted market prices are not available, valuation techniques are used to determine fair value.

Level 3 – where at least one input that could have a significant effect on the investment's valuation is not based on observable market data. Sensitivity analysis of Level 3 assets is shown below.

	Assessed Valuation Range (+/-) %	Market at 31 March 2018 £000	Value on Increase £000	Value on Decrease £000
Pooled investment vehicles (incl LDI)	10%	15,378	16,916	13,840
Pooled Property Funds	10%	51,529	56,682	46,376
Infrastructure	10%	30,361	33,397	27,325
Timber and agriculture	7%	25,772	27,576	23,968
Private equity (incl Opportunistic Fund	10%	188,399	207,239	169,559
Hedge Fund	10%	6,645	7,310	5,981
Total		**318,084**	**349,120**	**287,049**

	Assessed Valuation Range (+/-) %	Market at 31 March 2017 £000	Value on Increase £000	Value on Decrease £000
Pooled investment vehicles (incl LDI)	10%	12,768	14,045	11,491
Pooled Property Funds	10%	74,795	82,275	67,316
Infrastructure	10%	18,718	20,590	16,846
Timber and agriculture	10%	29,103	32,013	26,193
Private equity (incl Opportunistic Fund	15%	169,376	194,782	143,970
Hedge Fund	10%	9,634	10,597	8,671
Total		**314,394**	**354,302**	**274,487**

The following tables show the position of the Fund's assets at 31st March 2018 based on the Fair Value hierarchy:

2017/18	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	204,372	0	204,372
Pooled investment vehicles	197,774	820,408	15,378	1,033,560
Pooled Property Funds	0	63,993	51,529	115,522
Infrastructure	11,764	0	30,361	42,125
Timber and agriculture	0	0	25,772	25,772
Private equity	0	0	188,399	188,399
Hedge Fund	0	144,240	6,645	150,885
Total	**209,538**	**1,233,013**	**318,084**	**1,760,635**

2016/17	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	198,621	0	198,621
Pooled investment vehicles	335,351	632,319	12,768	980,438
Pooled Property Funds	0	39,919	74,795	114,714
Infrastructure	13,043	0	18,718	31,761
Timber and agriculture	0	0	29,103	29,103
Private equity	1,013	0	169,376	170,389
Hedge Fund	3,554	114,091	9,634	127,279
Total	**352,961**	**984,950**	**314,394**	**1,652,305**

NOTE 15A: TRANSFERS BETWEEN LEVELS 1 AND 2

£84.720m was transferred from Level 1 to Level 2 following further information about the pricing methodology used for the Investec Diversified Growth Fund.

NOTE 15B: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2017 £000	Purchases £000	Sales £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Realised gains/ (losses) £000	Unrealised gains/ (losses) £000	Market Value 31 March 2018 £000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI) [a]	12,768	14,914			(12,768)		464	15,378
Pooled Property Funds	74,795	4,701	(12,174)		(21,415)	734	4,888	51,529
Infrastructure	18,718	13,059	(2,691)			1,989	(714)	30,361
Timber and agriculture	29,103	173	(1,908)			164	(1,760)	25,772
Private equity (incl Opportunistic Funds)	169,376	40,675	(41,418)			9,142	10,624	188,399
Hedge Fund	9,634						(2,989)	6,645
Net investment assets	**314,394**	**73,522**	**(58,191)**	**0**	**(34,183)**	**12,029**	**10,513**	**318,084**

The Fund holds no other assets or liabilities at fair value.

	Market Value 1 April 2016 £000	Purchases £000	Sales £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Realised gains/ (losses) £000	Unrealised gains/ (losses) £000	Market Value 31 March 2017 £000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI) [b]	315,530				(302,762)			12,768
Pooled Property Funds	70,245	7,968	(10,774)			2,875	4,481	74,795
Infrastructure	15,934	1,938	(5,227)			727	5,346	18,718
Timber and agriculture	25,937	219	(1,632)				4,579	29,103
Private equity (incl Opportunistic Funds)	145,824	33,290	(37,595)			14,467	13,390	169,376
Hedge Fund	8,013						1,621	9,634
Net investment assets	**581,483**	**43,415**	**(55,228)**	**0**	**(302,762)**	**18,069**	**29,417**	**314,394**

(a) Transferred to level 2 to reflect re-appraisal of pricing data of the fund during the year

(b) Transferred to level 2 to reflect re-appraisal of pricing data of the fund during the year

The categories of asset have been restated in 2016/17 to align with the Code as stated in Note 2.

NOTE 16 - FINANCIAL INSTRUMENTS

NOTE 16A - CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

2016/17 Fair Value through profit and loss £000	2016/17 Loans and receivables £000	2016/17 Financial liabilities at amortised cost £000		2017/18 Fair Value through profit and loss £000	2017/18 Loans and receivables £000	2017/18 Financial liabilities at amortised cost £000
			Financial assets:			
198,621			Bonds	204,372		
980,438			Pooled investment vehicles	1,033,560		
114,714			Property	115,522		
31,761			Infrastructure	42,125		
29,103			Timber and agriculture	25,772		
170,389			Private equity	188,399		
127,279			Hedge Fund	150,885		
	33,623		Other investment assets - cash		21,191	
	250		Debtors		314	
1,652,305	**33,873**	**0**		**1,760,635**	**21,505**	**0**
			Financial liabilities:			
		(531)	Creditors			(760)
0	**0**	**(531)**		**0**	**0**	**(760)**
1,652,305	**33,873**	**(531)**	**Total**	**1,760,635**	**21,505**	**(760)**

NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2016/17 £000		2017/18 £000
	Financial assets:	
311,242	Designated at fair value through profit and loss	77,179
(641)	Loans and receivables	0
	Financial liabilities:	
0	Designated at fair value through profit and loss	0
0	Financial liabilities at amortised cost	0
310,601	**Total**	**77,179**

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Procedures for Managing Risk

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimize the risk to an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Responsibility for the Fund's risk management strategy rests with the Clwyd Pension Fund Committee (the Committee) and is set out in the Investment Strategy Statement (ISS), which is available on the Fund's website (www.clwydpensionfund.org.uk).

The ISS is subject to annual review and has been prepared taking into account advice from the Fund's consultants JLT Group. The Committee manages investment risks, including credit risk and market risk, within agreed risk limits, which are set after taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Committee by regular review of the investment portfolio throughout the year.

The investment objective of the Committee is to achieve and maintain a portfolio of suitable assets of appropriate liquidity equal to 100% of liabilities within the 15 year average timeframe, whilst remaining within reasonable risk parameters.

The current strategy is to hold:

- 81% in return-seeking investments comprising UK and overseas equities pooled funds, investment property funds, hedge funds, private equity, venture capital and infrastructure;

- 19% in investments that move in line with the long-term liabilities of the Fund. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds, and repurchase agreements which allow the Fund to gain unfunded exposure to gilts.

Market Risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rate and credit spreads. The Fund is exposed to market risk all its investment activities. The Committee seeks to manage this risk through diversifying investments across a range of asset classes and markets with low correlations with each other and across a selection of managers. In addition, the Committee sets a strategic benchmark in the ISS for each asset class subject to fixed tolerances which also seeks to diversity and minimize risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current benchmark is targeted to produce long-term returns of 6.5% with a volatility of around 12.6%.

Market risk is also managed through manager diversification with no single manager managing more than 24% of Fund assets. Currently the maximum holding within any one fund manager is 22.7% with Insight managing the LDI mandate, which is within this limit.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments. The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by an average of 6.69%, which is the three-year price volatility as advised by JLT Group for the Fund's investment strategy.

Assets exposed to price risk	Value £000s	3 year volatility range %	Value on increase £000s	Value on decrease £000s
As at 31 March 2017	1,685,928	7.94%	1,827,458	1,544,398
As at 31 March 2018	**1,781,826**	**8.00%**	**1,902,970**	**1,618,300**

Interest Rate Risk

The Fund invests in cash-based financial instruments for the primary purpose of obtaining a return on investments. Bonds and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The table below demonstrates the change in value of these assets had interest rates varied by 1%. It should be noted that the value of bonds varies inversely to interest rates.

Assets exposed to interest rate risk	Value £000s	Value on 1% increase £000s	Value on 1% decrease £000s
As at 31 March 2017	232,244	230,594	233,894
As at 31 March 2018	**225,563**	**223,731**	**227,395**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Fund is exposed to currency risk because some of the Fund's investments are held in overseas markets through pooled vehicles. The Committee manages currency risk through its Tactical Asset Portfolio allocation which covers any financial instruments that are denominated in any other currency other than GPB. The following table sets out the Fund's potential currency exposure as at 31st March 2018:

Assets exposed to currency risk	Value £000s	Percentage change %	Value on increase £000s	Value on decrease £000s
As at 31 March 2017	1,132,720	5.95%	1,200,087	1,065,353
As at 31 March 2018	**1,204,394**	**8.85%**	**1,310,981**	**1,097,808**

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk because it invests in pooled investment vehicles and is therefore directly exposed to the credit risk in the pooled investment vehicle and indirectly exposed the credit risks arising on financial instruments held by the pooled investment vehicles.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash is held in financial institutions which are at least investment grade credit rated.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the financial position of its admitted bodies.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Committee monitors cashflows regularly during the year and as part of the triennial funding review and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2018, liquid assets were £1,462m representing 82% of total fund assets (£1,387m at 31 March 2017 representing 82% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

NOTE 18 – DEBTORS

2016/17 £000s		2017/18 £000s
0	**Long-term debtors**	29
	Short-term debtors	
1,129	Contributions due - Employees	1,172
2,572	Contributions due - Employers	3,393
12	H.M. Revenue and Customs	14
582	Administering authority	1,328
0	Prepayments	303
250	Sundry debtors	15
4,545	**Total Short-term debtors**	**6,225**
4,545	**Total**	**6,254**

2016/17 £000s		2017/18 £000s
12	Central Government	17
3,935	Other Local Authorities	5,349
598	Other Entities and individuals	888
4,545	**Total**	**6,254**

NOTE 19 – CREDITORS

2016/17 £000		2017/18 £000
(7)	Contributions received in advance	(9)
(1,259)	Benefits payable	(1,708)
(90)	Added years	(9)
(418)	Administering authority	(531)
(2)	H.M. Revenue and Customs	(4)
(531)	Sundry creditors	(320)
(2,307)	**Total**	**(2,581)**

2016/17 £000		2017/18 £000
(3)	Central Government Bodies	(4)
(508)	Other Local Authorities	(540)
(1,796)	Other Entities and Individuals	(2,037)
(2,307)	**Total**	**(2,581)**

NOTE 20 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Clwyd Pension Fund has engaged two additional voluntary contribution (AVC) providers: Prudential Assurance Company Ltd and Equitable Life Assurance Society. The value of the funds invested with both AVC providers are shown below. AVCs paid directly to the providers are shown below.

In accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

2016/17 £000		2017/18 £000
807	Contributions in the year	**922**
	Value of AVC funds at 31 March:	
5,069	Prudential	5,213
462	Equitable Life	420
5,531	**Total**	**5,633**

NOTE 21 – AGENCY SERVICES

Clwyd Pension Fund pays discretionary awards to former employees of the current unitary authorities and Coleg Cambria shown below together with former local authorities, current town and community councils and other bodies listed below under Other employers.

2016/17 £000s		2017/18 £000s
551	Conwy County Borough Council	534
1,823	Denbighshire County Council	1,778
3,209	Flintshire County Council	3,136
22	Powys County Council	21
2,255	Wrexham County Borough Council	2,190
51	Coleg Cambria	57
67	Other employers	58
7,978	**Total**	**7,774**

NOTE 22 - RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2018, four Members of the Clwyd Pension Fund Committee had taken this option.

The four Co-opted Members of the Pension Fund Committee receive fees in relation to their specific responsibilities as members of the Committee in the form of an attendance allowance that is in line with that adopted by Flintshire County Council.

Flintshire County Council

During the year Flintshire County Council incurred costs of £1.6m (£1.4m restated in 2016/17) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The restatement was to reflect supplies and services costs omitted from the 2016/17 disclosure. The costs have been included within Oversight & Governance costs and administration expenses at Note 10.

Key Management Personnel

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Flintshire Chief Executive and the Flintshire s.151 officer. Total remuneration payable to key management personnel is set out below:

2016/17 £000s		2017/18 £000s
15	Short-term benefits	26
44	Post-employment benefits	6
59	**Total**	**32**

NOTE 23 MATERIAL ITEMS OF INCOME AND EXPENSE

For the purpose of this Note, the Council considers material items of income and expense to be those exceeding £18m. During the year the Fund incurred the following material transactions:

- Sold £70m from the Investec Global Equities Fund and invested £70m in the Blackrock Global Equity Tracker Fund;
- Transferred £385m from the Insight Umbrella Holding to the Insight Liability Driven Investment (LDI) Fund; and
- Invested £20m in the MAN FRM Hedge Fund of Funds.

NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2018, the Fund has contractual commitments of £760m (£672m in 2016/17) in private equity, infrastructure, timber and agriculture, and property funds, of which £523m (£517m in 2016/17) has been deployed, leaving an outstanding commitment of £237m (£155m at 31 March 2017).

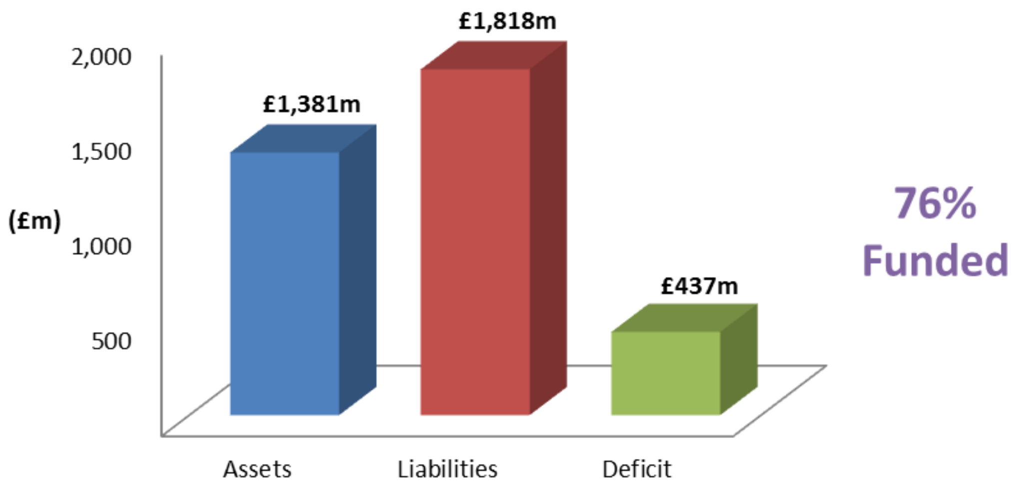
CLWYD PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Clwyd Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,381 million represented 76% of the Fund's past service liabilities of £1,818 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £437 million.



The valuation also showed that a Primary contribution rate of 15.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At the most recent actuarial valuation the average deficit recovery period was 15 years, and the total initial recovery payment (the "Secondary rate") for the three years commencing 1 April 2017 is approximately £29.4 million per annum. For most employers, the Secondary rate will increase at 3.45% per annum, except where phasing has been applied or where it was agreed with the employer to pay a flat contribution. With the agreement of the Administering Authority employers could also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.20% per annum	4.95% per annum
Rate of pay increases (long term)*	3.45% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.55% per annum	3.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.3% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,642 million. Interest over the year increased the liabilities by c£66 million, and net benefits accrued/paid over the period also increased the liabilities by c£28 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £107 million due to "actuarial gains" (i.e. the effect of actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £2,629 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018

Mark Wilson
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE CLWYD PENSION FUND'S RESPONSIBILITIES

The Pension Fund is required to :-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Pension Fund, this is the Corporate Finance Manager as Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

Signed :

Cllr David Hughes
Chair to the Clwyd Pension Fund

Date : **5 September 2018**

THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of the Pension Fund's statement of accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code").

In preparing this statement of accounts, the Chief Finance Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Chief Finance Officer has also :-

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of accounts presents a true and fair view of the financial position of the Clwyd Pension Fund at 31st March 2018, and the amount and disposition at that date of its assets and liabilities.

Signed:

Gary Ferguson CPFA
Corporate Finance Manager (Chief Finance Officer)

Date: **5 September 2018**

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report and Management Letter – **Clwyd Pension Fund**

Audit year: 2017-18

Date issued: August 2018

Document reference: 769A2018-19

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

This document summarises the conclusions on the 2017-18 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements.

Summary report

Introduction

1 The purpose of this report is twofold:

- to set out for consideration the matters arising from the audit of the financial statements of Clwyd Pension Fund (the Pension Fund) for 2017-18, that require reporting to those charged with governance, in time to enable appropriate action; and
- to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.

2 The Auditor General's responsibilities were set out in our Audit Plan that was noted by the Audit Committee in March 2018 along with your responsibilities as those charged with governance; we do not repeat them in detail again here.

3 We are particularly grateful to Pension Fund for their assistance, co-operation and good quality of working papers and the draft accounts provided.

4 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Clwyd Pension Fund at 31 March 2018 and its income and expenditure for the year then ended.

5 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.

6 The quantitative level at which we judge such misstatements to be material for the Pension Fund is £17.8 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

Status of the audit

7 We received the draft Pension Fund financial statements on 15 June 2018, fourteen days prior to the statutory deadline of 30 June 2018, and have now substantially completed the audit work.

8 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed and agreed these issues with Pension Fund officers and the Corporate Finance Manager.

Proposed audit report

9 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in Appendix 1.

10 The proposed audit report is set out in Appendix 2.

Significant issues arising from the audit

Uncorrected misstatements

11 There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

12 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in Appendix 3.

Other significant issues arising from the audit

13 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you.

We have no concerns about the qualitative aspects of your accounting practices and financial reporting

14 The draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers, helping us to achieve the overall completion timetable on a timely basis.

15 With the advent of the earlier production and publication of local government annual accounts by the end of May and July respectively by 2020-21, the 2017-18 draft accounts were received on 15 June 2018, two weeks ahead of the statutory deadline. The earlier preparation was achieved as part of the Pension Fund's initiative to prepare for the early production and publication of local government body annual accounts required by 2020-21.

16 To ensure the Pension Fund and ourselves are well placed to meet the earlier deadlines we will review this year's account preparation process and audit outcomes at a joint post project learning session and agree a plan to incrementally bring forward the accounts closure and audit over the next few years.

17 Last year Internal Audit reported progress in addressing our 2015-16 recommendation on the need for the Pension Fund to address remaining differences in the monthly reconciliations of the transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system. Internal Audit followed up progress in addressing the remaining differences in 2017-18 and concluded that there were no outstanding matters.

There are no other matters that we need to report to you

18 We did not encounter any significant difficulties during the audit. The Pension Fund and Worth Technical Accounting Solutions (who prepared the draft financial statements) maintained an open and constructive dialogue with the audit team throughout the audit. As a result, the audit process has gone smoothly. We were not restricted in our work and we received the information that we required for our audit in a timely manner.

19 There are no other matters to report to you. In particular:

- There were no significant matters discussed and corresponded upon with management which we need to report to you.
- We did not identify any material weaknesses in your internal controls.

Independence and objectivity

20 As part of the audit finalisation process, we are required to provide you with representations concerning our independence. We can confirm that with the exception of one member of staff, there are no known threats to the independence of the Auditor General for Wales or on the independence of staff or contractors working on his behalf.

21 With regards to the exception noted above, a member of the audit team has close family who are members of the Pension Fund. We have taken appropriate steps to ensure that the audit team member has not been involved in any audit work on pension payments or payroll. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

5 September 2018

Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2018 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Clwyd Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements.

Representations by Flintshire County Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Clwyd Pension Fund Committee on 5 September 2018.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:	Signed by:
Gary Ferguson Corporate Finance Manager	Councillor David Hughes Chair of Clwyd Pension Fund Committee
5 September 2018	5 September 2018

Appendix 2

Proposed independent auditor's report of the Auditor General to the members of Flintshire County Council as administering authority for the Clwyd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of the Clwyd Pension Fund for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. The Clwyd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Report on other requirements

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the Clwyd Pensions Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements set out on page 30, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor’s responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor’s report.

Anthony J Barrett	24 Cathedral Road
For and on behalf of the Auditor General for Wales	Cardiff
7 September 2018	CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Clwyd Pension Fund

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
Note 8 Benefits Payable Value of £1,708,000 The correction also affects the Fund Account and the Net Asset Statement.	The Note 8 'Benefits payable' increased from £68,889,000 to £70,597,000 due to the following amendments: • 'Administering Authority – Flintshire County Council' from £26,524,000 to £27,066,000 • 'Scheduled bodies' from £39,217,000 to £42,330,000. • 'Admitted bodies' from £3,238,000 to £1,201,000. 'Benefits payable' in Note 19 was also amended from £0 to £1,708,000 and corresponding adjustments were made 'Other entities and individuals' disclosed in the subsequent table. The adjustments were also reflected in the 'Fund Account' and 'Net Asset Statement'.	To ensure: • 'Benefits Payable' was correctly classified between 'Scheduled' and 'Admitted' bodies; and • Note 19 was not prepared in accordance with the Pension Fund's accounting policies as lump sum accruals for retirements and death grants were excluded in error.
Note 13A Analysis of investments Reanalysed for 'Pooled investment vehicles: Overseas'.	The table containing the analysis of investments was amended to reflect the classification of investments disclosed in Note 15 'Fair value of Investments'.	To ensure the financial statements fully comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.
Note 13B Analysis by Fund Manager Narrative disclosure.	An additional table was added to the disclosure showing the spilt between UK and Overseas holdings at the 31 March 2018.	To ensure the financial statements fully comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Clwyd Pension Fund Annual Report 2017/18
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

LGPS Regulations require the Fund to publish an Annual Report before 1st December 2018. The regulations and CIPFA best practice guidance advise on the content.

To enable input from the Committee, the majority of the Annual Report has been drafted and attached for discussion. However there remains some outstanding sections and the collation of the report before external audit .can provide their opinion

The Fund usually publishes the Annual Report on its' web-site before the Annual Meeting with Employers which this year is 6th November 2018, before the next Pension Committee therefore we ask that Members delegate the approval of the Annual Report to the Clwyd Pension Fund Manager.
.
The Annual Report will include statutory and best practice statements which are being reviewed. It is anticipated only minor changes will be required.

The Fund accounts which will be included within the Annual Report, have been audited by Wales Audit Office (WAO) and are detailed in Agenda item 4.

RECOMMENDATIONS	
1	That Members note and comment on the draft unaudited sections of the Annual Report and delegate finalisation to the Clwyd Pension Fund Manager.

REPORT DETAILS

1.00	Annual Report
1.01	The Fund Annual Report for 2016/17 was reviewed by Worth Accounting Solutions. This review confirmed the Annual Report was fully compliant in most of the areas. There are areas which have been discussed with WAO which can be expanded upon and incorporated into the 17/18 Annual Report. The following draft sections for inclusion in the Annual Report are attached as appendices: **Governance Structure and Overview of the Clwyd Pension Fund** (Appendix 1) This section covers details of: • Pension Committee Membership • Advisory Panel membership • Pension Board Membership • Investment Managers • Committee attendance and Training Activity **Financial Performance** (Appendix 2) This section covers details of: • Summarised cash flow 2017/18 • 3 year cash flow forecast • Analysis of operating expenses against budget and prior year **Investment Policy and Performance** (Appendix 3) This section, prepared by the Fund Consultants, JLT, covers details of: • A summary of financial markets in 2017/18 • Investment performance • Investment strategy and allocations • Responsible investing and voting activity • The Fund's Private Market managers **Actuarial, Funding and Flight Path** (Appendix 4) This section prepared by the Fund Actuary, Mercer, covers details of: • The Flight Path strategy • Restructure of the hedging mandate • Implementation of equity option protection

1.02	The following sections are still to be completed : • Introduction by the Chief Executive and Chair • Independent Advisor Annual Report • Pension Board Annual Report • Administration Update • Specific Scheme Advisory Board requirements Once completed, the Annual Report will be reviewed by the external auditors to provide a statement for inclusion in the Report. The final report will be circulated to Members and published on the Funds' web –site.
1.03	The Annual Report and Accounts includes most of the Fund's key strategies and policies. We have reviewed them to ensure they are appropriate for inclusion. We envisage making some small changes to ensure that they are still up to date. As these changes are minor, these will be agreed using the Fund's agreed delegations to officers which allows the making of minor changes to existing strategies, statutory compliance statements, policies and procedures. The following is a summary of the expected changes: • All policies – updating dates. Scheme member and employer numbers, structure charts and other terminology (such as MHCLG from CLG) **Governance Policy** • Adding 2 additional risks **Training Policy** • Incorporating cross references to risk elements in the CIPFA governance principles of asset pooling guidance • Adding a paragraph explaining the importance of the policy being adhered to for continuing to be opted up to professional status for MiFID 2 purposes. **Risk Policy** • incorporating cross references to risk elements in the CIPFA governance principles of asset pooling guidance **Administration Strategy** • Updating the introduction and other references to explain progress with the various improvement initiatives in the business plan • Adding a paragraph to highlight CIPFA's role in governance matters which includes governance of administration **Communication Strategy** • Updating the introduction and other references to explain progress with the various improvement initiatives in the business plan • Updating a paragraph relating to communications with asset pooling partners **Breaches Policy** • Adding a paragraph to better explain the role of the Pensions Regulator in considering breaches

	• Correcting an incorrect reference to an example breach • Updating the format of the breaches log **Investment Strategy Statement** • Updated for key facts for Fund asset valuation and membership data • Updated to reflect the review of the Flight Path strategy • Updated to reflect the progress to date for pooling of assets in the Wales Pension Partnership • Updated to reflect the Fund becoming a Tier One signatory to the UK Stewardship Code

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	The Annual Report and external audit both review and identify whether there are any risks that are not being managed by the Fund. These include, strategic, operational and financial risks. The external audit report of the accounts did not report any risks that the Fund is not already aware of and taking action to reduce.

5.00	**APPENDICES**
5.01	Appendix 1 – Governance Structure and Overview section Appendix 2 – Financial Performance section Appendix 3 – Investment Policy and Performance section Appendix 4 – Actuarial, Funding and Flight Path section

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

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – 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 (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. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of

Mae'r dudalen hon yn wag yn bwrpasol

Governance Structure & Overview of the Clwyd Pension Fund

Administering Authority: Flintshire County Council

In May 2014 the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. Additionally, the representation of stakeholders, with full voting rights, on the Committee was widened. In performing their role the Committee takes advice from an advisory panel of officers and professional advisors. The Committee has a scheme of delegation to officers to ensure efficient implementation and receives monitoring reports at each quarterly Committee on governance, funding, investment, administration and communication strategies and progress with the 3 year Business Plan. The minutes of each Committee are available on the Flintshire County Council website. The membership of both the Committee and Advisory Panel are shown below.

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, included the establishment of Local Pension Boards. The role of the Board as defined in Regulation is to secure compliance with regulation and legislation and ensure effective and efficient governance. The minutes of Board meetings are included in the Committee agenda papers and Board members attend Committee, making an important contribution to debates and discussion. The Board annual report is included within this Annual Report.

The protocol for the Local Board can be found on the Fund's web-site, mss.clwydpensionfund.org.uk.

Clwyd Pensions Fund Committee

Committee Members		Voting Rights
Flintshire County Council	Cllr Dave Hughes (Chair)	✓
	Cllr Haydn Bateman (Vice Chair)	✓
	Cllr Billy Mullin	✓
	Cllr Ralph Small	✓
	Cllr Ted Palmer (February 2018)	✓
Denbighshire County Council	Cllr Huw Llewelyn Jones	✓
Wrexham County Borough Council	Cllr Nigel Williams	✓
Scheduled Body Representative	Cllr Andrew Rutherford	✓
Member Representative	Mr Steve Hibbert	✓

Advisory Panel

Panel Members	
Chief Executive (FCC)	Colin Everett
Corporate Finance Manager/ S151 Officer (FCC)	Gary Ferguson CPFA
Clwyd Pension Fund Manager (FCC)	Philip Latham
Investment Consultant (JLT Group)	Kieran Harkin
Fund Actuary (Mercer)	Paul Middleman FIA
Independent Advisor (Aon Hewitt)	Karen McWilliam FCIPP

Clwyd Pension Fund Local Board

Local Board Members		Voting Rights
Independent Chair	Karen McWilliam	X
Employer Representatives	Mark Owen	✓
	Steve Jackson	✓
Scheme Member Representatives	Gaynor Brooks (Replaced June 2018 with Paul Friday	✓
	Phil Pumford	✓

Investment Managers

Investment Managers	Address
BlackRock	12 Throgmorton Avenue, London
Insight Investment	160 Queen Victoria Street, London
Investec Asset Management	2 Gresham Street, London
Man FRM	Riverbank House, 2 Swan Lane, London
Pyrford International Ltd	95 Wigmore Street, London
Stone Harbor Investment Partners (UK), LLP	48 Dover Street, London
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London

The Fund has a number of investments with managers investing in Property, Private Equity, Infrastructure, Timber & Agriculture which are listed in the Investment Policy & Performance section of this report.

Other

Service	Address
Custodian: **Bank of New York Mellon**	160 Queen Victoria Street, London
Actuary: **Mercer Ltd**	Old Hall Street, Liverpool
Consultant: **JLT Employee Benefits**	7 Charlotte Street, Manchester
Independent Advisor: **Aon Hewitt**	122 Leadenhall Street, London
External Auditors: **Wales Audit Office**	Unit 4, Evolution, Lakeside Business Village, St. David's park, Ewloe
Bank: **National Westminster Bank plc**	48 High St., Mold
AVC Providers: **Prudential** **Equitable Life**	121 King's Road, Reading Walton Street, Aylesbury, Buckinghamshire
Legal Advisors: **This varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the National Framework Agreement .**	

Clwyd Pension Fund Contact Details

Name	Post	Contact details
Philip Latham	Clwyd Pension Fund Manager	(01352) 702264
Helen Burnham	Pensions Administration Manager	(01352) 702872
Debbie Fielder	Pensions Finance Manager	(01352) 702259
Pensions Administration	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance	pensionsinvestments@flintshire.gov.uk	(01352) 702812

Clwyd Pension Fund Training Policy 2017/18

At a national level, there are expanding requirements for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level knowledge and skills. These are being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (tPR) and legislation

The Fund developed a Training Policy which details the proposed training strategy for members of the Pension Fund Committee, Pension Board and senior officers responsible for the management of the Fund. It has been created to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It will aid existing and future Pension Fund Committee members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Clwyd Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills. The full Training Policy is included in the Best Practice section within this Annual Report.

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of this policy, we will compare and report on attendance at training based on the following:

a) Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.

b) Hot Topic Training – attendance by at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.

c) General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.

d) Induction training – ensuring areas of identified individual training are completed within six months.

The following table details all the training provided to Members of the Committee to satisfy the requirements of the Training Policy. This includes committees attended and relevant training sessions, conferences and seminars. All four Local Board Members also received and completed relevant training in line with the Policy, details of which are included in the Pension Board annual report. The Fund has a Training Plan which is provided to both Committee and Local Board Members and details all the training to be covered during the year.

In line with the Training Policy the follow measures relate to 2017/18 in relation to all Pension Committee, Local Board and senior officers (a total of 17 persons):

a) Individual Training Needs – all but one have completed the required training on all key elements in the last three years.

b) Hot Topic Training - Of the 9 additional training sessions offered, the attendance was as follow:

- 2 sessions 59%
- 2 sessions 76%
- 4 sessions 82%

c) General Awareness – Out of the total of 17 members (Committee and Board) and officers, 14 of them completed at least one general awareness day in accordance with the policy.

Committee Attendance / Training and Activity 2017/18

There was a substantive change to the membership of the Pension Committee in May 2017 and subsequently training was provided to all the new Members and as a refresher to existing Committee Members. Initial training days included the following areas which cover the areas recommended in the CIPFA Knowledge and Skills Framework whilst being Clwyd Pension Fund specific:

- Governance
- Actuarial and Funding (including the Fund's Liability Driven Investment mandate)
- Administration and Communications
- Investment Strategy

The table overleaf identifies the attendance at Committees and specific training undertaken during 2017/18 by the Committee during that year.

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Committees (3hrs)									
June 2017	✓	✓	✓	✓	✓	✓			
September 2017	✓	✓	✓	✓	✓	✓			✓
November 2017	✓	✓	✓	✓	✓	✓	✓		✓
Special Committee February 2018	✓	✓		✓	✓	✓	✓	✓	✓
March 2018	✓	✓	✓	✓	✓	✓		✓	✓
CIPFA Framework Requirements 2017/18 – 2019/20									
Governance (1 day)	✓	✓	✓	✓	✓	✓			✓
Administration (1 day)	✓	✓	✓	✓	✓	✓			✓
Funding & Actuarial (1 day)	✓	✓		✓	✓	✓			✓
Investments (1 day)	✓	✓	✓	✓	✓	✓	✓		✓
Accounting									
Additional Training & Hot Topics									
Pooling (Sept Committee)	✓	✓	✓	✓	✓	✓			✓
TPR Checklist (Sept Committee)	✓	✓	✓	✓	✓	✓			✓
Statement of Accounts (Sept Cttee)	✓	✓	✓	✓	✓	✓			✓
Funding and Flight Path (Nov Cttee)	✓	✓	✓	✓	✓	✓	✓		✓
CPF Annual Employer Admin Meeting (am)	✓	✓							✓
CPF AJCM (pm)						✓			✓

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
LGPS Performance (Feb Committee)	✓	✓		✓	✓	✓	✓	✓	✓
Clwyd Benchmarking Data (Feb Committee)	✓	✓		✓	✓	✓	✓	✓	✓
WPP Operator Update (Feb Committee)	✓	✓		✓	✓	✓	✓	✓	✓
PLSA Cost Transparency Web Cast (March Committee)	✓	✓	✓	✓	✓	✓		✓	✓
PLSA Risk Management Web Cast (March Committee)	✓	✓	✓	✓	✓	✓		✓	✓
Pensions Regulator Modules									
Conflicts of Interest							✓		✓
Managing Risk & Internal Controls									✓
Maintaining Accurate Member Data									✓
Maintaining Contributions									✓
Providing Information to Members & Others									✓
Resolving Disputes									✓
Reporting Breaches									✓
Conferences (Restricted spaces)									

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
CIPFA Pensions Network October 2017 (1 day)	✓		✓						✓
LGC Investment Summit (1.5 days) Sept 2017	✓	✓							✓
Allenbridge – LGPS Investment Costs – November 2017 (0.5 day)									✓
LAPFF Annual Conference (1.5 days) Dec 2017	✓								
LGC Seminar (1.5 days) March 2018	✓	✓	✓	✓	✓	✓			✓
Cross Pool Open Forum March 2018	✓								

Mae'r dudalen hon yn wag yn bwrpasol

Financial Reporting

Cash Flow

The Fund operates a rolling three year cash flow which is estimated and monitored on a quarterly basis. There are several unknowns within the cash flow such as transfers in and out of the fund and also drawdowns and distributions across the Fund's Property and Private Equity portfolio for which the current allocation is 25% of the Fund. Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period. The following table shows a summarised final cash flow for 2017/18. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

2017/18	Estimate £000	Actual £000	Variance £000
Opening In House Cash	(13,623)	(13,623)	
Payments			
Pensions	55,860	57,452	1,592
Lump Suns & Death Grants	15,000	13,500	(1,500)
Transfers Out	3,200	5,600	2,400
Expenses (including In House)	3,400	3,935	535
Support Services	120	120	
Total Payments	77,580	80,607	3,027
Income			
Employer Contributions	(34,100)	(34,617)	(517)
Employee Contributions	(14,000)	(15,259)	(1,259)
Employer Deficit Payments	(51,784)	(52,612)	(828)
Transfers In	(2,000)	(4,813)	(2,813)
Pension Strain	(1,200)	(1,057)	143
Income	(100)	(29)	71
Total Income	(103,184)	(108,387)	(5,203)
Cash Flow net of Investment Income	(25,604)	(27,780)	(2,176)
Investment Income	(3,000)	(3,540)	(540)
Investment Expenses	3,000	3,035	35
Total Net of In House Investments	(25,604)	(28,285)	(2,681)
In House Drawdowns	47,008	73,893	26,885
In House Distributions	(77,834)	(52,294)	25,540
Net Drawdown/Distributions	(30,826)	21,599	52,425
Net External Manager Cash	40,000	(879)	(40,879)
Total Net Cash Flow	(16,430)	(7,565)	8,865
Closing In House Cash	(30,053)	(21,188)	

3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2021. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 6.5% per annum. Estimates of Manager pooled investment fees are included in the budget report which follows the cash flow report.

		2018/19 £000	2019/20 £000	2020/21 £000
Opening Cash		(21,188)	(4,288)	(5.486)
Payments				
Pensions		59,280	60,040	61,200
Lump Suns & Death Grants		15,000	15,000	15,000
Transfers Out		3,200	3,200	3,200
Expenses (including In House)		3,400	3,400	3,400
Support Services		130	130	130
Total Payments		81,010	81,770	82,930
Income				
Employer Contributions		(35,200)	(36,000)	(36,700)
Employee Contributions		(14,000)	(14,000)	(14,000)
Employer Deficit Payments		(18,123)	(18,247)	(18,247)
Transfers In		(2,000)	(2,000)	(2,000)
Pension Strain		(1,200)	(1,200)	(1,200)
Income		(40)	(40)	(40)
Total Income		(70,563)	(71,487)	(72,187)
Cash Flow net of Investment Income		10,447	10,283	10,743
Investment Income		(3,000)	(3,000)	(3,000)
Investment Expenses		3,000	3,000	3,000
Total net of In House Investments		10,477	10,283	10,743
In House Drawdowns		86,790	62,238	63,146
In House Distributions		(80,337)	(73,809)	(68,109)
Net Drawdowns/Distributions		6,453	(11,481)	5,780
Rebalancing Portfolio				
Total Cash Flow		16,900	(1,198)	5,780
Closing Cash		(4,288)	(5,486)	294
Estimated Asset Valuations		1,897	2,020	2,151

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2017/18 compared to 2016/17 .Actuarial fees decreased as fees were higher in 2016/17 as it was an actuarial year. Consultancy fees decreased in 2017/18, fees in 2016/17 were higher due to additional projects connected with the Liability Driven Investment mandate.

	2016/17 £000	2017/18 £000	Net change £000
Governance & Oversight Expenses			
Employee Costs (Direct)	236	229	(7)
Support & Service Costs (Internal Recharges)	17	23	6
Premises	5	0	(5)
IT (Support & Services)	4	5	1
Other Supplies & Services	58	69	11
Miscellaneous Income	(11)	0	(11)
Audit Fees	39	39	0
Actuarial Fees	335	217	(118)
Consultant Fees	703	511	(192)
Advisor Fees	188	202	14
Legal Fees	59	37	22
Performance Monitoring Fees	57	67	10
Total Governance Expenses	**1,690**	**1,399**	**(291)**
Investment Management Expenses			
Fund Manager Fees	11,200	15,761	4,561
Performance Related Fees	2,919	3,837	918
Transaction Costs	267	941	674
Custody Fees	31	31	0
Total Investment Management Fees	**14,417**	**20,570**	**6,153**
Administration Expenses			
Employee Costs (Direct)	648	812	164
Support & Service Costs (Internal Recharges)	94	105	11
Outsourcing	260	227	(33)
Premises	6	0	(6)
IT (Support & Services)	290	286	(4)
Other supplies & services	70	139	69
Total Administrative Expenses	**1,368**	**1,569**	**201**
Total Fees	**17,475**	**23,538**	**6,063**

The following table shows actual costs for 2017/18 compared to the budgeted costs along with the budget for 2018/19. The difference in manager fees compared to budget reflects the additional cost transparency from Managers, including Private Markets Additional commitments have also been made in these areas. Outsourcing costs for the GMP reconciliation were only partly implemented during 2017/18.

		2017/18 £000 Actual	2017/18 £000 Budget	2017/18 £000 Variance	2018/19 £000 Budget
Governance & Oversight Expenses					
Employee Costs (Direct)		229	238	(9)	243
Support & Service Costs (Internal Recharges)		23	15	8	18
IT (Support & Services)		5	9	(4)	5
Other Supplies & Services		69	50	19	87
Audit Fees		39	40	(1)	40
Actuarial Fees		217	202	15	324
Consultant Fees		458	399	59	589
Advisor Fees		202	187	15	178
Legal Fees		37	40	(3)	24
Pooling		53	N/A	53	224
Total Governance Expenses		**1,332**	**1,180**	**152**	**1,732**
Investment Management Expenses					
Fund Manager Fees		20,539	11,878	8,661	16,593
Custody Fees		31	34	(3)	31
Performance Monitoring Fees		67	58	9	66
Pooling			N/A		50
Total Investment Management Fees		**20,637**	**11,970**	**8,667**	**16,740**
Administration Expenses					
Employee Costs (Direct)		649	762	(113)	776
Support & Service Costs (Internal Recharges)		105	75	30	66
Outsourcing		227	900	(673)	1000
Premises		0			
IT (Support & Services))		271	250	21	413
Other supplies & services		139	70	69	106
Member Self Service		15	75	(60)	0
Total Administrative Expenses		**1,406**	**2,132**	**(726)**	**2,361**
Employer Liaison Team					
Employee costs (Direct)		**163**	144	19	**194**
Total Costs		**23,538**	**15,426**	**8,112**	**21,027**

AN UPDATE FROM THE FUND'S INVESTMENT CONSULTANT

I am pleased to provide an update from an investment perspective on the activities of the Clwyd Pension Fund (CPF) during 2017/18. As the Fund's Investment Consultant I provide advice to the Fund on how to manage various investment risks. I also have a specific role in guiding the overall direction of the Fund via my seat on the CPF Advisory Panel.

Investment Strategy Statement (ISS)

When considering the Fund's investments it is appropriate to start with the overall investment objectives, which are set out in the ISS, which replaced the Statement of Investment Principles with effect from 1 April 2017. It is appended to this report and sets out the funding and investment objectives for the Fund. The specific investment objectives are:

- Strike an appropriate balance between long-term consistent investment performance and the funding objective to maintain assets equal to 100% of liabilities within the 15 year timeframe. .
- Ensure net cash outgoings can be met as and when required.
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

This report demonstrates progress made towards these long term objectives during 2017/18, compliance with the ISS, the economic and market environment and changes implemented or planned during the year.

Summary of 2017/18

Market Commentary

2017 was marked by ultra-low volatility as strong corporate earnings, low unemployment levels and broadly positive economic growth supported equity markets world-wide. Various political events like the snap-elections in the UK and Japan, geo-political tension between the US and North Korea, coupled with a series of elections in Europe failed to weigh-down on asset prices. The central banks in most of the developed nations started withdrawing stimuli as the global economy appeared to be in a 'Goldilocks' scenario. However as we approached 2018, concerns over rising inflation, accelerating wage growth and faster-than-expected rate hikes by the Federal Reserve caused market volatility to hit all time highs. In addition, concerns over a flattening yield curve in the US and a potential trade war between the US and China, also caused markets to weaken towards the end of the first quarter of 2018.

In the UK, Prime Minister Theresa May unexpectedly called a snap election to in June 2017, the outcome of which weakened the Conservative party's strength and stability prior to the crucial Brexit negotiations. However, towards the end of 2017, EU leaders agreed to move to the second phase of Brexit negotiations to discuss the future of the UK's trading relationship with the bloc. After falling to a 30-year low post Brexit, Sterling regained some strength over the year against the backdrop of progress in the negotiations and expectations that the Bank of England might increase rates faster than previously expected.

Despite sluggish domestic growth, the Bank of England (BoE) raised interest rates for the first time in a decade, from a record low of 0.25% to 0.50% in November 2017. UK gilt yields fell to historic lows post the BoE's decision to extend its quantitative easing programme and remained volatile thereafter. While concerns around rising inflation in the UK and a hawkish BoE helped to push the yields higher in the beginning of 2018, rising geo-political tensions and a global equity market sell-off contributed to their fall towards the end of Q1 2018.The BoE in its latest quarterly inflation report, increased the forecast for UK GDP growth from 1.7% to 1.8% in 2018. Over the year, the FTSE 100 index fell by 3.6%, in local currency terms.

The nationalist parties that gained momentum across Europe in 2016 were seen to take a back seat in 2017 as both Mark Rutte and Emmanuel Macron emerged as winners against the anti-EU leaders in Dutch and French elections respectively. After an initial round of inconclusive elections in September 2017, Angela Markel managed to form a new government and win her fourth term as German chancellor. While spreads between French and German government bond yields widened at the beginning of 2017 amid concerns over the French elections, they narrowed post the win and have been stable over the year. Political unrest was re-ignited in Europe as regional elections in Catalonia failed to resolve the independence issue. In addition, Italy's election in March 2018 yielded no overall winner, but the results were tilted in the favour of populist extremist parties.

In October 2017, the ECB decided to extend its quantitative easing policy to September 2018, but at the same time it began to gradually withdraw the stimulus by reducing the amount of monthly asset purchases from €60 billion per month currently to €30 billion from January 2018. Overall, the economic backdrop remained positive in Europe as the Q4 2017 GDP grew at an annualised rate of 2.5% thereby growing at the fastest pace since 2007. Over the year, the STOXX Euro 600 index provided a return of 0.4% in local currency terms.

The US equity markets corrected sharply in February 2018 after touching their all-time highs in 2017. An increase in US wage inflation that caused investors to believe in faster-than-expected rate hikes primarily led to the fall. Also, concerns around US-China trade relations resulted in increased equity market volatility towards the end of the period under review. There remains some uncertainty around the implementation of President Trump's economic and fiscal policies, given his efforts to reduce trade deficit gave rise to trade war tensions. In December 2017, the US Senate approved a $1.5 trillion tax bill, which not only reduces the corporate tax rate to 21% from the current 35%, but also includes temporary tax cuts for individuals. During the fourth quarter of 2017, the US economy grew at an annualized rate of 2.6%, as compared to a growth rate of 3.3% in the third quarter.

Treasury yields continued to rise over the year as expectations of growth, inflation and interest rate rises increased. Given the strong momentum in economic growth, the US Federal Reserve has raised rates three times in the last twelve months, in effect increasing the base rate range to 1.50% – 1.75%. In addition, the Federal Reserve, at its bi-monthly meeting in September 2017, unveiled its plan of systematically shrinking the $4.5 trillion balance sheet starting in October 2017. The S&P 500 index returned 11.8% in dollar terms over the year.

China has raised its profile within the global market, with its currency joining the International Monetary Fund's basket of reserve currencies alongside MSCI's decision to include its mainland equities, known as A-shares, in the global benchmark equity index from 2018. In December 2017, the People's Bank of China raised its interest rates by 5 basis points, in an attempt to keep the currency stable. Steps were taken to bar individuals and companies from investing in overseas markets and tighter liquidity rules were introduced to restrict loans to the shadow banking sector. Considerable efforts were also taken to open up the Chinese economy, particularly the financial sector. A new law which removes the presidential term limit was also introduced in 2018. GDP in the world's second-largest economy grew by 6.9% year-on-year in the fourth quarter of 2017, slightly higher than the 6.8% growth in the third quarter. In September 2017, Standard and Poor's cut China's sovereign credit rating from AA- to A+ against the backdrop of rising debt levels in the economy. The 19th Communist Party Congress was held in October 2017 to address structural risks and focus on the quality of growth. Concerns around a trade war (imposition of tariffs by the US on steel and aluminium products) with the US negatively impacted the Chinese equity markets towards the end of Q1 2018. Over the year, the FTSE China A50 index rose by 21.4%, in local currency terms.

In Japan, 10-year government bond yields have hovered around the targeted level of zero since the adoption of yield curve control by the Bank of Japan. While the Yen depreciated significantly against the US Dollar in 2017 due to a hawkish Fed, it started gaining some strength in 2018 owing to its safe haven status. Prime Minister Shinzo Abe's Liberal Democratic Party (LDP) won a clear majority in the snap elections held in October 2017 and Haruhiko Kuroda was re-appointed as the governor of the Bank of Japan in March 2018. This implied continuation of loose monetary policy in Japan when the world is treading on the path to quantitative tightening. Abe also announced a 2 trillion yen ($18 million) stimulus package to be spent on education, child-care and to encourage corporate investments. However, controversy surrounding the Moritomo Gakuen land sale has significantly reduced the Prime Minister's approval rating in the recent past. During the first quarter of 2018, its economy expanded at an annualized rate of 1.6%, primarily driven by strong private consumption and increased business spending. Equity markets were supported by improving macro-economic data and corporate earnings during the year. Over the year, the Nikkei 225 rose by 13.5% in local currency terms.

While Brent crude prices were range bound for the first half of the period under review, they increased in the second half as both OPEC and non-OPEC members agreed to extend production cuts to the end of 2018. Supply disruptions from around the globe coupled with a weakening US Dollar also provided some support to prices. Brent crude prices rose by 33.0% during the period in review.

Clwyd Pension Fund Investment Performance 2017/18

The Fund returned +4.3% in 2017/18 which is behind the expected return assumption of CPI +4.0% as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). The return of +4.3% compared with a composite benchmark (of the underlying manager benchmarks) of +4.4% and a composite target of +4.8%. Whilst the returns for the year were below the required rate, this needs to be seen in context of the longer term performance; over three years to the 31 March 2018 the Fund achieved a return of +8.1% per annum compared with a composite benchmark of +7.1% per annum and the composite target of +7.5% per annum .

The Equity portfolio that includes Global and Emerging Market Equity exposures returned +11.2% with both the Developed Global Equity Fund and the Emerging Markets Funds producing strong absolute returns despite the market volatility in February and March 2018. Both Wellington Emerging Markets Core and Local portfolios outperformed their targets over the 12 months, whilst the Investec Global Strategic Equity fund underperformed its target by -0.2%. The Fund invested in the BlackRock ACS World Multifactor Equity fund in November 2017 as part of the implementation of the 2016/17 review of the investment strategy. There is no annual performance for this fund due to the short holding period.

The Multi-Asset Credit portfolio produced a small positive return of +2.9% outperforming its target. The review of the 2016/17 Investment Strategy included, for the first time, an allocation to Private Credit. During 2017/18 the Fund appointed two managers for this allocation and the Permira investment (accessing European Private Credit) was funded in September 2017, although it will take some time to drawdown the full commitment. A second manager, BlackRock was subsequently appointed to manage the Fund's exposure to North American Private Credit.

The year was a tough one for the Tactical Allocation Portfolio, which suffered in the market sell-off in February and March 2018. It returned +1.5%, underperforming its objective. The portfolio comprises a Diversified Growth Portfolio which returned -0.1% and a Best Ideas Portfolio that produced a return of +2.9%. Within the Diversified Growth Portfolio both of the managers underperformed their benchmarks; Investec had a positive return of +2.8% and Pyrford returned -2.4%.

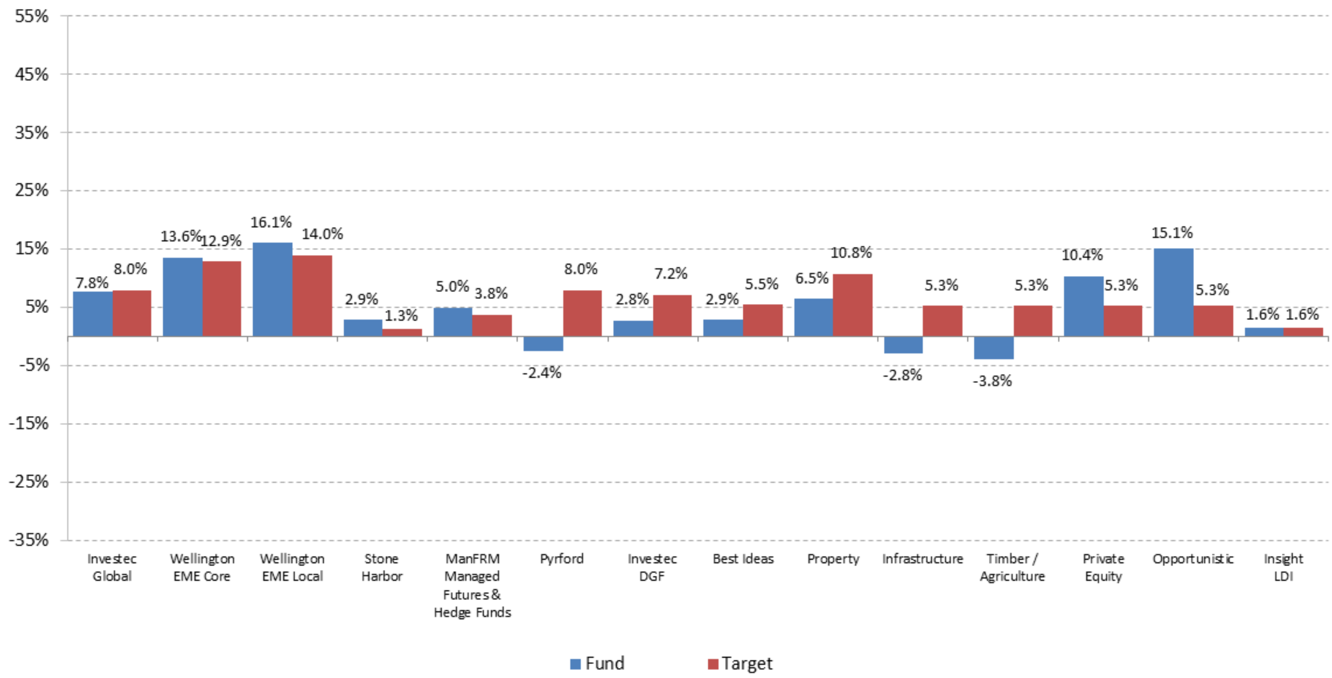
The Managed Account Platform with ManFRM contains a Managed Futures & Hedge Funds portfolio which produced a positive absolute return of +5.0%. In addition the residual balances of the Fund's illiquid legacy Hedge Funds holdings are contained on the Platform which reduced the overall return of the Managed Account Platform to +2.5%. With the exception of the legacy investments it is pleasing to see the diversification the MANFRM portfolio is starting to give the Fund.

After the strategy review in 2016/17 the Fund's In-house portfolio was split between Private Markets (Private Equity & Opportunistic) and Real Assets (Property, Infrastructure, Timber/Agriculture). In the 12 months the Private Markets portfolio achieved a return of +11.1% and the Real Assets portfolio +3.0%.

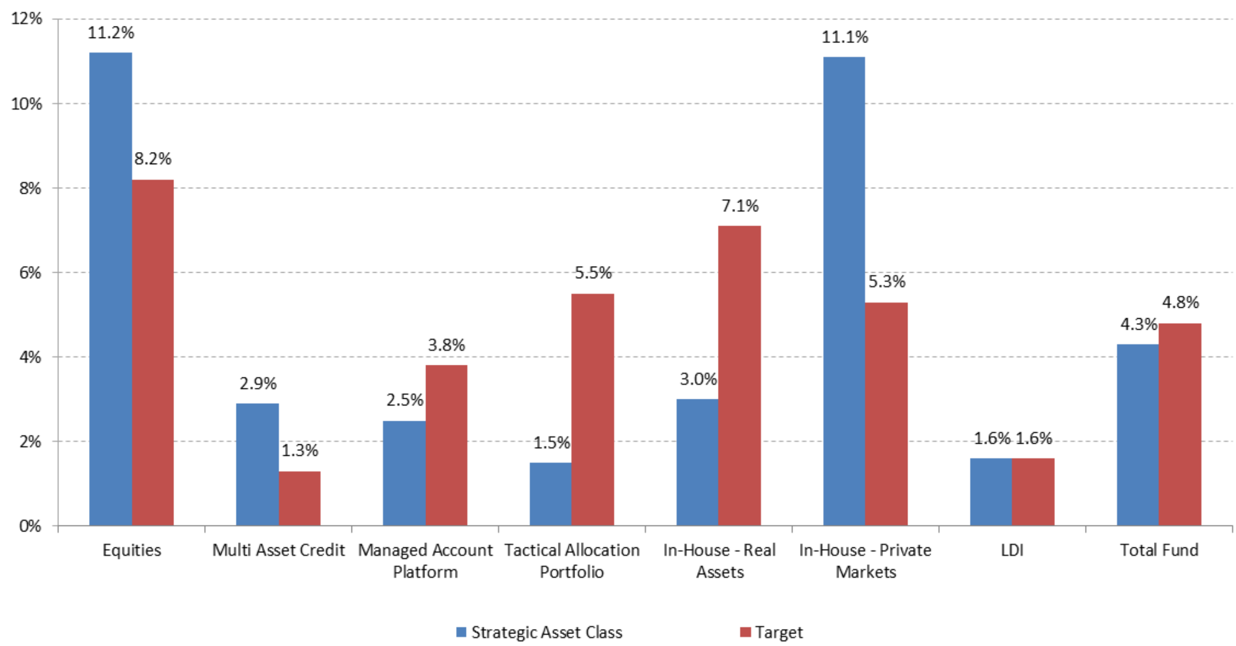
Within the Private Markets portfolio Opportunistic investments performed best returning +15.1%. Private Equity also achieved a strong absolute performance with a return of +10.4% over the year. Within the Real Assets portfolio Property investments produced a positive return of +6.5% in the year, however this was partially offset within the overall return by the Infrastructure and Timber/Agriculture assets that declined by -2.8% and -3.8% respectively in the year.

The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional Global Equity, Gilt and inflation exposures returned +1.6% in 2017/18 compared to +50.8% the previous year. However the performance of this portfolio over the short term is less relevant due to its risk management characteristics.

The following charts below summarise the 12 month performance against the target for each of the Fund's asset classes and managers together with the total Fund. It should be noted we have only included those funds/asset classes that have a full 12 month return.



The chart below summarises the performance of the key components of the Fund's investment strategy versus their target.



Source: JLT Employee Benefits

Summary of Investment Performance

2017-18

The market conditions for the first ten months of 2017/18 were beneficial for the Fund with most of the major asset classes producing strong positive returns in particular Equity markets. However in February and March 2018 a lot of this good performance was tempered by volatile and falling markets. Despite this sell-off late in the financial year, equity markets still produced the strongest returns overall. However, the diversification within the Fund's investment strategy was exemplified with the performance of the In-House Private Market investments which was the next best performing element of the portfolio. This diversification of sources of return is expected to position the Fund well in the future.

Whilst the Fund will not have produced a return as high as an investment strategy more heavily weighted to Equities, which is seen when comparing to the average local authority, it is important to bear in mind that the Fund is investing for the long term and has a diversified portfolio which aims to achieve a targeted balance between return and risk. However this is not to say that we are not cognisant of shorter term market conditions – as commented in last year's annual report the creation and implementation of the Fund's Best Ideas Portfolio (within the Tactical Allocation Portfolio) is evidence of this.

Post 31 March 2018

Given the market volatility and sell off in markets that affected market values and ultimately performance in February and March 2018, it is appropriate to update the position of the Fund as at 30 June 2018. Since the end of March, investment markets have seen a sustained recovery, with global developed equity markets leading the way, with most regions recovering all of the value lost in the first quarter of 2018. As a result of this recovery in markets the Clwyd Fund has seen its value rise to circa £1,848m at the end of June, an increase of £70m since the end of March.

Investment Strategy

The detail of the "light touch" Investment Strategy review, undertaken in 2016 in conjunction with the Actuarial Valuation, was reported in last year's Annual Report and in the year under review, the implementation of the new strategy has been progressing.

One important aspect of the review was to increase the Fund's illiquidity premium (to increase the long term expected return) by introducing a 3% allocation to Private Credit within the Fund's Credit Portfolio. The manager search for Private Credit was progressed in the year and Permira were appointed as European Private Credit manager in September 2017. A separate process to appoint a North American Private Credit manager was concluded in the year with BlackRock appointed, although no committed capital had been drawn down as at the end of March 2018.

A number of JLT's strategic recommendations are more medium term by way of implementation as at 31st March 2018 the more short term changes had been implemented. The "light touch" nature of the review has meant that the characteristics of the investment strategy have remained broadly similar to last year. The key features of the Fund's strategy are outlined below.

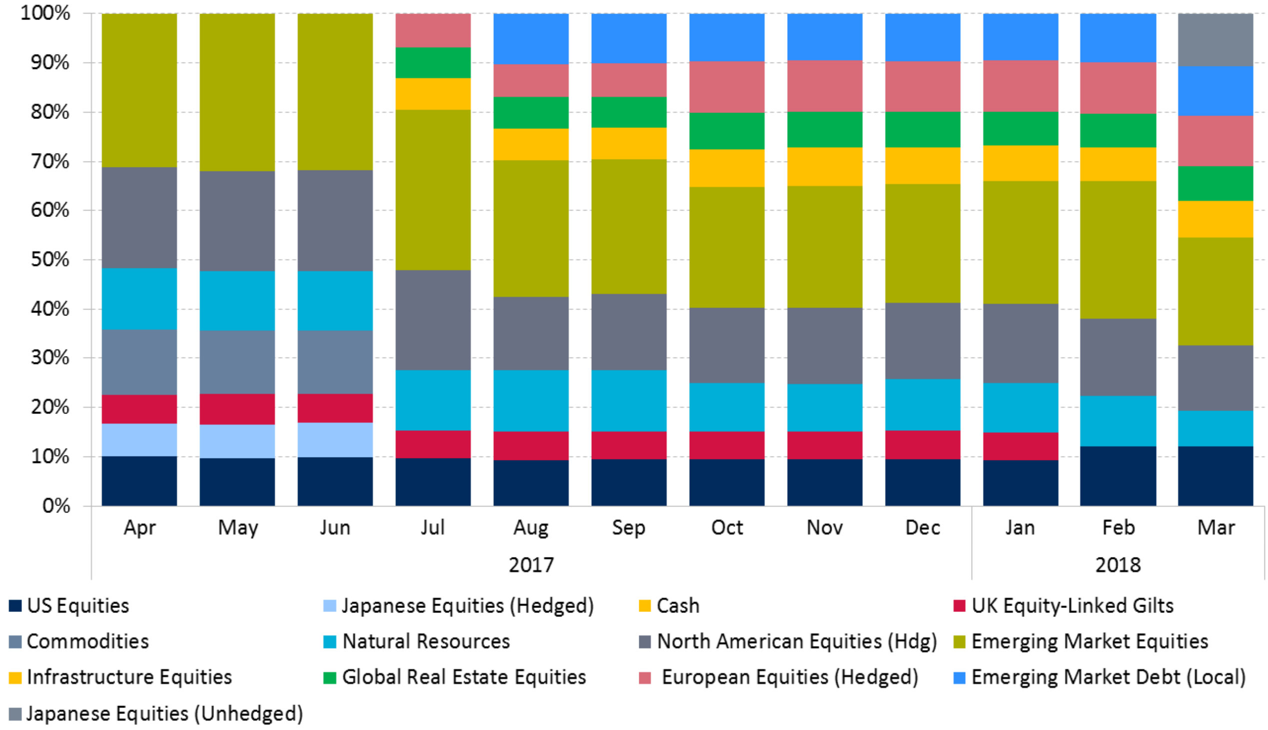
The Fund's investment strategy continues to be more diversified than most LGPS Funds and incorporates a Flightpath/De-Risking Framework (which was not covered in the strategy review but the structure of which is being reviewed separately), which differentiates the Fund from many other LGPS Funds. The aim of the Fund's strategy is to reduce the volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term Equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years. It does appear that other LGPS funds are moving to more diversified strategies as the average LGPS fund has 55% allocated to equity, compared to 62% as at 31 March 2017. However, this is still significantly higher than the Clwyd Fund.

In July 2017 the strategic decision to allocate 4% of the Fund to Global Equity Smart Beta was implemented with the appointment of BlackRock to manage the mandate.

The ManFRM Managed Account Platform (MAP) includes Managed Futures and Hedge Funds. In addition the legacy illiquid Hedge Fund holdings were incorporated onto the MAP pending their full redemption, given the illiquid nature of some of the underlying positions in these funds. During the year proceeds from the holdings redeemed were reallocated within the ManFRM MAP.

The Tactical Allocation Portfolio includes a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The Best Ideas Portfolio is a short term (12 month horizon) tactical allocation based upon JLT's suggested "best ideas". Aside from the decisions being made on a tactical (short term) basis, the basic premise of the decisions within this portfolio is that any asset allocation implementation should be liquid (to enable speed of action should it be required) and cost efficient. Given the increase in the Fund's strategic allocation to the Best Ideas Portfolio, and the material size of this allocation (11% of total Fund assets) we provide further details as to the composition of this portfolio overleaf.

Throughout the year under review a number of positions have been taken within the underlying composition of the Best Ideas portfolio as demonstrated in the chart below. There is a monthly meeting of the Tactical Asset Allocation Group where JLT monitor and review the portfolio and make recommendations to Fund Officers. A robust process has been put in place with a transparent audit trail (including minutes of all meetings) documenting any changes and decisions together with their rationale.



The chart demonstrates the diversified nature of the holdings within the Best Ideas Portfolio which has included regional Equities, Commodities, UK Equity Linked Gilts, Emerging Market Debt as well as liquid alternatives in the form of listed Infrastructure and Global REITS. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group over the year.

The Fund's current strategic asset allocation, strategic and conditional ranges (established following the 2016 "light touch" review), are shown below:

Strategic Asset Class	Strategic Allocation	Strategic Range (%)	Conditional Range (%)
Global Equity	8.0%	5.0 – 10.0	0 – 30
Emerging Markets Equity	6.0%	5.0 – 7.5	0 – 15
Credit Portfolio	15.0%	10.0 – 20.5	0 – 25
Multi Asset Credit	*12.0%*	*10.0 – 15.0*	*5 – 20*
Private Credit	*3.0%*	*2.0 – 5.0*	*0 – 10*
Managed Account Platform	9.0%	7.0 – 11.0	5 – 15
Tactical Allocation Portfolio	21.0%	15.0 – 25.0	10 – 30
Diversified Growth	*10.0%*	*8.0 – 12.0*	*5 – 15*
Best Ideas Portfolio	*11.0%*	*9.0 – 13.0*	*5 – 15*
Private Markets	10.0%	8.0 – 12.0	8 – 12
Real Assets	12.0%	10.0 – 15.0	5 – 20
Property	4.0%	*2.0 – 6.0*	*0 – 10*
*Infrastructure**	8.0%	*5.0 – 10.0*	*2 – 12*
Liability Hedging	19.0%	10.0 – 30.0	10 – 30
Cash	0.0%	0.0 – 5.0	0 – 30

* Infrastructure includes exposure to Agriculture and Timber

The following table shows the strategic ranges compared to the actual asset allocations as at 31 March 2018 and 31 March 2017.

Manager	Mandate	Strategic Allocation 16/17	Actual Allocation 31/03/17	Strategic Allocation 17/18	Actual Allocation 31/03/18
	Equities				
Investec Asset Management	Global Equity	4.0%(1)	7.8%	4.0%	4.2%
Wellington Management International Ltd	Emerging Markets Equity	6.0%	6.4%	6.0%	6.9%
BlackRock	Global Equity	4.0%(1)	0.0%	4.0%	3.8%
	Credit				
Stone Harbor Investment Partners	Multi-Asset Credit	15.0%(2)	11.9%	12.0%	11.5%
Permira	Private Credit	0.0%(2)	0.0%	3.0%	0.9%
	Managed Account Platform				
ManFRM	Managed Futures & Hedge Funds	9.0%	8.2%	9.0%	8.1%
ManFRM	*Hedge Funds (Legacy)*		0.6%		0.4%
	Tactical Allocation Portfolio				
Pyrford International	*Diversified Growth*	5.0%	4.9%	5.0%	4.5%
Investec Asset Management	*Diversified Growth*	5.0%	4.9%	5.0%	4.8%
Consultant	*Best Ideas Portfolio*	9.0%	10.9%	11.0%	10.6%
	In-House - Real Assets				
Various	Property	4.0%	6.7%	4.0%	6.4%
Various	Infrastructure	6.0%	1.9%	6.0%	2.3%
Various	Timber/Agriculture	2.0%	1.7%	2.0%	1.4%
	In-House – Private Markets				
Various	Private Equity	8.0%	8.7%	8.0%	8.7%
Various	Opportunistic	2.0%	1.0%	2.0%	1.7%
	Liability Hedging				
Insight	Liability Driven Investments	19.0%	23.5%	19.0%	22.5%
	Cash		0.8%		1.2%

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1) The Global Developed Equity Portfolio has a new allocation to Smart Beta which was implemented in November 2017.
2) The Credit Portfolio has a 3.0% allocation to Private Credit. Managers have been appointed but the draw down will take some time.

Responsible Investment

The Fund's ISS includes its policy on Responsible Investment which is implemented through a Sustainability Policy. The ISS shows the Fund's compliance with the Financial Reporting Council's UK Stewardship Code and in March 2018 the Fund was approved as a Tier One signatory to the Code. The Fund continues to be a member of LAPFF and PLSA who both act on behalf of its members on stewardship matters.

Although the Fund is invested in pooled vehicles, and therefore does not own individual shares, the fund managers still report on how they voted the shares held within the vehicle. In particular if corporate governance concerns are raised by LAPFF, these are reported to fund managers and an explanation is received from fund managers on how they voted and the engagement undertaken with the managers of the company.

A summary of the voting activities of the managers for 2017/18 is shown in the following table.

Manager	Annual/Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/Withheld
Investec	262	3,532	3,263	196	63	10
Pyrford	53	885	785	61	4	1
Wellington	312	2,563	2,203	232	82	46

The Fund invests in property, private equity, infrastructure, timber and agriculture. A list of these investments is attached with commitments to those with a particular environmental or social objective separately identified. The commitments made to date in these areas amount to £127m.

Investments regulations now allow for LGPS funds to consider social impact where some part of financial return is forgone in order to generate a social impact and there is no significant risk of financial detriment. The Fund's approach to Social Investments is included in the ISS but no investments have been made to date where financial return has been foregone, although many of the investments do have a social impact. The Fund is working on how this can be effectively measured and reported to stakeholders.

United Nations Principles for Responsible Investment

The Fund engages with all of its asset managers to ensure that they are fully aware of their responsibilities with regard to Sustainability, and one of the ways in which the fund management industry can demonstrate that it takes its responsibilities seriously is to become a signatory to the UN Principles for Responsible Investment (UN PRI). Firms that are signatories to the UN PRI are required to commit to a set of six principles promoting and incorporating Environmental Social and Governance (ESG) principles into all aspects of its work. It is pleasing to report that all of the Fund's major asset managers (listed below) are UN PRI signatories.

BlackRock

Insight

Investec

MAN Group

Pyrford

StoneHarbor

Wellington.

LGPS Code of Transparency

In 2017, the LGPS Scheme Advisory Board introduced a Code of Transparency for asset managers, to encourage transparent reporting of costs. The Code is voluntary but is being widely adopted across the LGPS including within the developing pools. The Scheme Advisory Board is monitoring and reporting on those managers that have committed to the Code, and it is pleasing to note that all of the Fund's major managers (shown below) have signed up.

BlackRock

Insight

Investec

MAN Group

Pyrford

StoneHarbor

Wellington.

Summary of the Longer Term

The market value of the Fund has increased from approximately £909m in 2008 to £1,777m in 2018. This is detailed in the Management and Financial Performance section of this report.

The table below shows a summary of the annualised investment performance over the last 20 years compared with the Fund's benchmark and local government pension funds.

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa
1	+4.3	+4.4	+4.5
3	+8.1	+7.1	+8.3
5	+7.9	+7.2	+8.8
10	+6.2	+6.6	+7.7
20	+6.0	+5.8	+6.5

Source: JLT Employee Benefits, PIRC

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current weightings were reviewed and agreed in 2016/17 as part of the "light touch" investment strategy review.

Investments	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	2018 (%)	LGPS Average
Equities							
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	-	
UK Active (Traditional)	35.0	29.0	15.0	-	-	-	
UK Active (Portable Alpha)	10.0	10.0	12.0	-	-	-	
US Active	7.0	8.0	5.0	-	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	-	
Japan Active	4.0	4.0	4.0	-	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	6.0	
Frontier Markets Active	-	-	-	-	2.5	-	
Developed Passive	-	-	-	19.0	-	-	
	72.0	**66.0**	**55.0**	**43.0**	**17.0**	**14.0**	**55.0**
Fixed Interest							
Traditional Bonds	10.0	9.5	-	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	
Cash/ Other	2.5	0.5	-	-	-	-	
	14.0	**12.0**	**13.0**	**15.0**	**15.0**	**15.0**	**18.0**
Liability Driven Investment	-	-	-	-	**19.0**	**19.0**	-
Alternative Investments							
Property	5.0	7.0	6.5	7.0	7.0	4.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	6.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	2.0	
Commodities	-	-	2.0	4.0	-	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	9.0	
Currency Fund	-	4.0	4.0	-	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	-	
Tactical Allocation (Diversified Growth)	-	-	-	-	10.0	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	11.0	

	14.0	22.0	32.0	42.0	49.0	52.0	24.0

IN HOUSE PORTFOLIO

REAL ASSETS

Property Open Ended Holdings	Number of Fund	Environmental/Social Impact	Number of Funds
Schroders	1		
Hermes	1		
LAMIT	1		
Legal & General	1		
BlackRock	1		
Property Closed Ended Holdings			
Aberdeen Property Asia Select	2	Bridges Property	2
BlackRock US Residential	1	Igloo Regeneration	1
Darwin Leisure Property	1	Threadneedle Low Carbon	1
Franklin Templeton	2		
InfraRed Active Property	3		
North Haven Global Real Estate	2		
Paloma Real Estate	2		
Partners Group Global Real Estate	2		
Schroders – Columbus UK Real Estate	1		
Timber			
		BGT Pactual Timberland	2
		Stafford Timberland	3
Agriculture			
		Insight Global Farmland	1
		GMO	1
Infrastructure			
Arcus European Infrastructure	2	InfraRed Environmental	1
Base Camp	1		
Carlyle Global Infrastructure	1	Impax Infrastructure	2
GSAM West Street Infrastructure	1		
HarbourVest Real Assets	1		
Hermes Infrastructure	1		
InfraRed	2		
Innisfree	1		
North Haven Global Infrastructure	2		
Pantheon	1		
Partners Group Direct Infrastructure	1		
Total Funds	**35**		**14**

PRIVATE MARKETS

Private Equity Direct Funds	Number of Funds	Environmental/Social Impact	Number of Funds
Access Capital	1	Bridges Ventures	2
Apax	5	Environmental Technologies	3
August Equity	3	Ludgate Environmental	1
Candover	1		
Capital Dynamics	3		
Carlyle	2		
Charterhouse	4		
ECI	3		
Granville Baird	2		
Parallel Ventures	3		
Partners Group Direct	2		
Unigestion	1		
Private Equity Fund of Funds			
Access Capital	4	HarbourVest Cleantech	1
Capital Dynamics	7	Hermes Environmental	1
HarbourVest	5		
Partners Group	10		
Standard Life	2		
Unigestion	2		
Opportunistic			
BlackRock European Property	1	Foresight Regional Investment	1
Carlyle	2		
Dyal	1		
JP Morgan Secondary's	1		
Marine Capital	1		
Marquee Brands	1		
NB Credit Opportunities	1		
Pinebridge Structured Capital	1		
Total Funds	**69**		**9**

Private Debt	
Permira	1
BlackRock	1
Total Funds	2

AN UPDATE FROM THE ACTUARY

I am delighted to provide my update from an actuarial perspective on the activities of the Clwyd Pension Fund (CPF) during 2017/18. As the Fund's Actuary, I provide advice to the Fund and its employers in relation to managing and monitoring the many financial and demographic risks they face. I also have a specific role in guiding the overall direction of the Fund via my seat on both the CPF Advisory Panel and the Funding and Risk Management Group (FRMG) which was established to specifically manage the "Flightpath" strategy. The Advisory Panel provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the CPF achieve its long term objectives. I feel that, as a group, we have continued to make excellent progress over the year with a number of important enhancements made to the Flightpath framework.

RISK MANAGEMENT

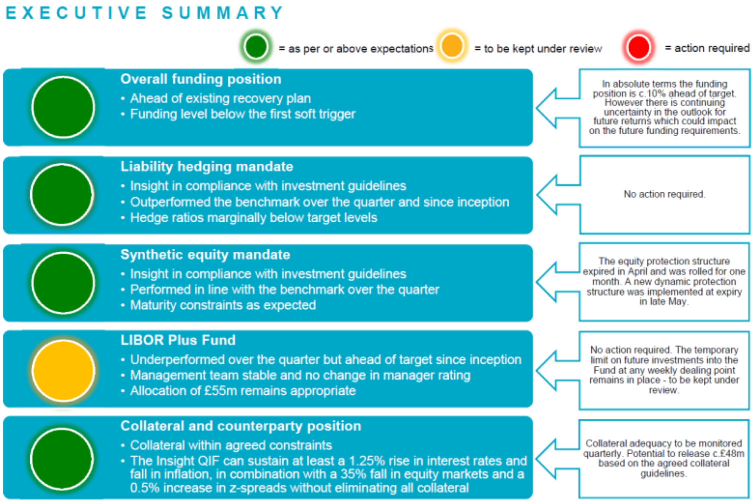
FLIGHTPATH STRATEGY

A critical aspect of managing risk relates to the Flightpath strategy which is central to providing stability of funding and employer contribution rates in the long term. This strategy was originally put in place from 1 April 2014 to support the overall objective to be fully funded (a solvency level of 100%) in 10 to 12 years. The various triggers built into the Flightpath strategy were reviewed alongside the actuarial valuation and the updated triggers are now incorporated into the operation of the strategy.

Over 2017/18, the level of risk hedging (the "hedge ratio") within the framework did not change (remaining at approximately 20% for interest rates and 40% for inflation rates) as the market yields and the funding level remained below the relevant trigger points.

The funding plan was ahead of the target set as part of the 2016 valuation as at 31 March 2018. Overall the funding position was estimated to be 89% as at 31 March 2018 which was 10% ahead of target. Whilst this was a favourable position, there was concern that due to market volatility this improvement may be lost or much reduced hence the implementation of the Equity Protection element of the strategy. This strategy was updated on 24th May 2018 (see comments below).

The CPF is also in a relatively unique position as the Flightpath strategy has provided protection given the level of risk hedging in place.



Whilst monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the Flightpath run by Insight Investment Management (Insight) are working correctly, as this is vital to the success of the strategy. Therefore we monitor on a monthly basis using a red/amber/green ("RAG") rating system and the summary at March 2018 is shown. It can be seen that all aspects were at least in line with expectations except in relation to the LIBOR plus fund. The amber rating is shown as Insight have put a cap on the level of new investment into the fund so they can maintain liquidity. Whilst the CPF is not expected to make any future investments into this fund, it was considered prudent to keep this under review hence the amber rating. It has had no impact on the Flightpath.

RESTRUCTURE OF THE HEDGING MANDATE

Whilst the main objective of the Flightpath strategy is to manage risk, it is important to identify opportunities to maximise the operational performance of the mandates.

We identified an opportunity to restructure the mandate to provide a higher yield on the assets for the same level of risk control. This involved buying assets with a higher yield/return and selling an equivalent asset with a lower yield/return. It was agreed by the Pension Fund Committee that the restructure should proceed subject to a net gain of at least £25m being realised. The trade was completed in March 2017 and an expected long-term gain of £36.5m (net of costs) over 50 years was achieved from this restructure, which was a very positive outcome. Given this value will accrue over a very long time-frame; the position will be monitored by the FRMG. Depending on market conditions, a significant proportion (subject to the minimum total gain of £25m) could be realised much earlier. Since the restructure, the Fund has benefited by around £13m in immediate gains as at 31 March 2018 and is expected to achieve a guaranteed gain of a further £10m, resulting in a total expected gain of £23m. As this total gain has increased to £28m at 31 July 2018 (over 70% of the total expected gain in 18 months) it has been agreed to capture the opportunity to lock-in this gain early and to mitigate the possibility of losing this significant return in a short period.

IMPLEMENTATION OF EQUITY OPTION PROTECTION

The funding position has continued to improve post 31 March 2018 and was at 92% at the end of July. In order to protect the Fund's current strong position, the CPF insures itself against potential falls in the equity markets via the use of an "Equity Protection contract". The aim is to provide further certainty in employer contributions (all other things equal) in the event of a significant equity market fall. The Fund implemented a protection strategy against falls below a fixed market level (known as a "static" strategy), set as 15% or more of the market level at the point of implementation. This was in place from 24th April 2017 and ran until 24th May 2018.

On 24th May 2018, a new "dynamic" Equity Protection strategy was put in place. This was after rigorous analysis and value for money considerations by the FRMG. The strategy protects against falls of 15% or more of the average market position over the previous 12 months. This protection level will vary depending on market movements and the main benefit compared to a static strategy is that the protection level will increase if markets rise. This will be financed by giving up some potential upside return on a monthly basis. Whilst more complex to set up, the dynamic strategy also provides advantages versus the previous static approach such as:

1. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios; and,
2. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off if necessary.

The strategy is implemented on a daily rolling basis to best capture changes in market conditions. Given this complexity however, it was agreed that a single counterparty bank would package and deliver the strategy, implemented via Insight. Mercer went through a process of determining the most cost effective counterparty bank and it was agreed that JP Morgan would deliver the strategy.

The strategy will be monitored monthly alongside the Flightpath (above).

LOOKING FORWARD

Of course, the political and economic landscape remains uncertain due to the UK and EU BREXIT negotiations. This could have a material effect on the level of UK inflation and also the expected asset returns, both of which are crucial to the financial health of the Fund and the contributions required from the employers. It should be highlighted that the Flightpath strategy will continue to provide protection to the funding position against these potential challenges relative to other LGPS Funds. We will also continually monitor the operation of the strategy to identify ways of improving its performance whilst maintaining the overall risk management objectives. An interim funding review as at 31 March 2018 will be completed over 2018/19 and this will be reported over the next few months. The intention is to provide employers with an update of their funding position and contributions following the recent positive returns to aid in budget planning ahead of the 2019 valuation. It will also help further embed the employer risk management framework which will consider an employer's ability to support their obligations to the Pension Fund by considering their covenant. It is therefore my continued confidence in the strong governance structure within the Fund which means we are well placed to navigate any uncertainty and volatility that arises.

P Middleman

Paul Middleman FIA

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The project to pool investments across the eight LGPS funds in Wales continues with the focus on preparing for the transition of global equity assets following the approval of the Prospectus for the Wales Pension Partnership (WPP) Authorised Contractual Scheme (ACS) by the Finance Conduct Authority (FCA).

The Operator is now discussing with constituent authorities requirements for further sub funds for UK Active Equity, European Active Equity and Fixed income.

The Officer Working Group (OWG), along with Hymans Robertson, are also working through a number of miscellaneous issues and outstanding actions covering both investment and governance matters some of which are for consideration by the Joint Governance Committee (JGC) and others to be referred back to the constituent authorities.

The Minister for Local Government wrote to the then Chair and Vice Chair of the WPP responding to a progress report provided in April 2018. He would like to meet during the autumn to discuss the development of our pool and our ambitions for the future, including on infrastructure investment. A further progress report as at 30th September is required by 15th October 2018.

RECOMMENDATIONS	
1	That the Committee note the report and discuss progress being made by the Wales Pension Partnership.

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	This update report follows a series of previous reports on the progress of the work of the Wales Pension Partnership (WPP). The June Clwyd Pension Fund Committee followed the last Joint Governance Committee (JGC) on 11th June 2018 where the 'Prospectus' for the Wales Pension Partnership (WPP) Authorised Contractual Scheme (ACS) was considered and a verbal update given to the Committee (see Clwyd Pension Fund Committee Minutes 13th June 2018 for further details). There have been no JGCs since the last Committee but several Officer Working Group meetings and conference calls
1.02	The 'Prospectus' has now been approved by the Finance Conduct Authority (FCA) which currently includes two global equity sub-funds. This prospectus now provides the platform for sub-funds for other asset classes to be added. This is a major milestone for WPP.
1.03	To enable the efficient transfer of global equity assets from the constituent authorities to the WPP ACS a transition manager is required to be appointed. This is a technically complex and financially important procurement which is being organised by the Operator (Link) with involvement from the OWG and advice from Hymans Robertson. The LGPS Framework for Transition Managers is being used. The appointment is a decision reserved for the JGC.
1.04	The Operator is now working on the next two tranches of asset classes to be considered by the WPP. Two active regional equity funds, one for UK Equity and one for European Equity. Only two of the constituent authorities invest directly in these regions; the Clwyd Fund does not. The next tranche will be fixed income where it is more difficult to find a solution to satisfy the various requirements of all the constituent authorities. Clwyd Fund officers and investment consultant have outlined our current requirements to the Operator, although these may change after the next investment strategy review.
1.05	The Host Authority, OWG and Hymans Robertson are considering the approach to be taken to several other governance and investment matters which will either require approval of the JGC or constituent authorities such as: • A response to Local Boards following Scheme Advisory Board guidance on member representation on the JGC. • WPP Business Plan and Policy documents required within the Inter-Authority Agreement • Investment policies for voting, sustainable investing and stock lending. • Investing reporting at WPP and constituent authority level. A 'fund manager engagement day' has also been arranged by the Host Authority at Celtic Manor on 5th September 2018 to enable constituent authorities to receive presentations from the fund managers implementing

	the global equity mandates. A presentation is also being received on options on how Alternative Investments could be implemented via WPP.
1.06	Clwyd officers remain involved in the work of the WPP and the national asset pooling programme. The Pension Finance Manager represents Wales at the national Infrastructure Cross Pool meetings and, at the request of the Host Authority, represented Wales at the last two national Cross Pooling meetings and the recently established national Client Cross Pool Meeting. At the latest Infrastructure Cross Pool Group, the Government have requested that an "Infrastructure Information" day be held for the benefit of Pension Committee and Board Members and officers of the Local Government Pension Funds. The date, venue and agenda have yet to be determined. The next Responsible Investment Cross Pool meeting, to be held in October, has also invited members of the Infrastructure Group as the agenda is to include discussions as to how we can incorporate Responsible Investing in due diligence and investing in Infrastructure. As a representative for the WPP on the RI Cross Pool Group, the Pensions Finance Manager will be in attendance.
1.07	The Minister for Local Government wrote to the Chair and Vice Chair of the Wales Pension Partnership responding to the April 2018 progress report. The response is attached. Some points to note are: • The Minister's understanding on the reliance on advisors. • A meeting to discuss future developments including infrastructure. The Clwyd Pension Fund LDI programme (Liability Driven Investments – our flight path strategy) was mentioned in the April 2018 progress report highlighting the difficulty in pooling it. It is interesting to note that this has not been mentioned in the Minister's response.

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2018/19 budget (within the separate business plan report for this meeting). The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Pension Finance Manager on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations.
4.02	This risk has been identified as significant in the Fund's risk register.

5.00	APPENDICES
5.01	Appendix 1 – Letter from the Minister for Local Government.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	• Earlier Committee reports on the progress of the WPP. • The Wales Pension Partnership Inter-Authority Agreement. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(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 (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. (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

	(d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of **(e) Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling **(f) Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments **(g) The Operator –** an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link (h) **Financial Conduct Authority (FCA)** – the regulator of the financial markets and financial services firms in the UK

Mae'r dudalen hon yn wag yn bwrpasol

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Councillor Stephen Churchman
Chair, Joint Committee

Councillor Mark Norris
Vice Chair, Joint Committee

2 6 JUL 2018

Dear Cllr Churchman and Cllr Norris,

WALES PENSION PARTNERSHIP: PROGRESS REVIEW

Thank you for your report on progress to 11 April and updates to my officials on developments since then.

I am pleased to note that you have submitted your application for authorisation of an Authorised Contractual Scheme to the Financial Conduct Authority. It is also very welcome that you plan to transfer around £5 billion in UK and global equities to the pool by early in 2019, or nearly a third of your assets. I would like to thank all those across the participating funds whose commitment and hard work have enabled you to reach this stage.

I understand that you are continuing to rely largely on advisers as you plan and deliver the transition of assets. I remain concerned that expertise and capacity for governance and the client side are not being built up in-house. I will look to you to ensure that proper accountability to the eight participating funds and robust performance management of a large contract are delivered.

For the future I will also expect you to maintain momentum on the pace of transition while ensuring cost effectiveness. I will also expect fully transparent reporting on costs and investment performance by asset class against appropriate passive benchmarks. I look forward to receiving your next report on progress as at 30 September by 15 October 2018.

I am disappointed that my heavy parliamentary commitments have made it difficult to meet. I would like to discuss the development of your pool and your ambitions for the future, including on infrastructure investment. My office will be in touch to arrange a meeting during the autumn.

Rishi Su

RISHI SUNAK MP

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Governance Update
Report Author	Clwyd Pensions Manager

EXECUTIVE SUMMARY

An update is on each quarterly Committee agenda and includes a number of governance related items for information, discussion or approval. The items for this quarter include:

(a) Business Plan 2018/19 update, including an update on the recruitment to the three new posts in the Finance Team
(b) An update from the last Local Pension Board meeting
(c) Various items being considered by the National Scheme Advisory Board, including a system to check compliance against the Code of Transparency, a standard LGPS employer data extract and the resurrection of the review into the greater separation between administering authorities and host authorities
(d) The initial findings from an Aon survey into administering authorities structures and pay
(e) Training implementation and monitoring, including an update on the proposed training day in September
(f) The latest changes to our breaches of the law register.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee approve the proposed changes to the Conflicts of Interest Policy.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	**Business Plan 2018/19 Update** Progress against the business plan items for quarter one of this year is generally on track as shown in Appendix 1. This quarter's work includes the following items: • G4 – Cybercrime – This item was being taken forward by the Pensions Administration Manager and nothing has progressed since she has been absent. However following a request by the Pension Board, they will be receiving presentations from both Flintshire County Council's ICT and Aquila Heywood on 11th October on the steps they take to protect the Fund from Cybercrime. An update will be provided at the November Committee. • G5 – Structure Review of Finance Team – as agreed at the last meeting, three new positions have been created in the Finance Team that have now been advertised. The current situation regarding the three posts (Pension Fund Accountant, Investment Officer and Governance & Business Support Officer) is that no suitable applications were received. The Clwyd Pension Fund Manager is discussing the way forward with Human Resources. • G6 – Review/Tender Actuarial Contract – The Fund will be progressing this through the National Framework and has requested access to the tender documentation. Next steps are to discuss and produce the documentation for the Fund.
1.02	The Committee is asked to note the contents of the business plan update.
	Current Developments and News
1.03	*Pension board update* The approved minutes of the Clwyd Pension Fund Board meeting on 27 February 2018 are attached at Appendix 8. The last meeting of the Clwyd Pension Fund Board was held on 28 June 2018. Due to resource constraints, the formal minutes are not yet available. The key items of discussion were as follows: • Administration Update – discussion around the increases in day to day workloads, the benefits of the Member Self-Service facility, the challenges of implementing the new I-Connect system including the impact on the KPIs. The Board noted the major increase in scheme member satisfaction in two areas but asked the Team to consider how to encourage a greater number of surveys being completed. The Board were supportive that a business case was being completed in relation to the Team's resources as they are concerned about the ongoing challenges the Team face in relation to workloads. • Project Apple – the Board received a more detailed explanation of the error covered by the Committee's Part 2 report. The Board suggested that the report to the Pensions Regulator should be carried out as soon as possible. They asked the Team to investigate if APP was being calculated correctly by all other employers and the

	difficulties in checking this were highlighted but the Team agreed to carry out further checks. They also asked to be kept up to date with progress. • Asset pooling – The Board noted the major project to implement asset pooling. However, they asked a number of questions about the governance of asset pooling, noting that their role was not to comment on the assets being considered, but to consider how decisions are made. They highlighted that it appeared unclear as to how decisions should be made and noted there appeared to be lack of clarity within the meeting papers and minutes that were available. Members also highlighted that a number of policies still had not been developed, which could impact on decision making such as the lack of a Conflicts of Interest Policy. As a result of the questions being asked the Board felt they had reason to be concerned. The Board asked the Chair to ask the Chairs of the other Welsh Boards if they had similar concerns, and if so, suggested a joint letter be sent requesting greater clarity on these aspects. The Board also asked that any such letter include a request for a representative from the Welsh Pension Boards to attend the JGC meetings. • Cheshire Pension Board – the Chair received an invitation for a member of the Clwyd Pension Board to attend a Cheshire Pension Board meeting and vice versa. The purpose of this is to share ideas between the Boards and hopefully learn from each other. Board member Phil Pumford and the Clwyd Pension Fund Manager attended the Cheshire Pension Board on 17th July and we expect a member of their Board to attend the Clwyd Pension Board on 11th October 2018.
1.04	*National Scheme Advisory Board (SAB) Update* The following are items to note relating to the work of the national Scheme Advisory Board. More information regarding these and other SAB matters can be found on the SAB website - http://lgpsboard.org/. Please note that the minutes of the June meeting are not yet published and so it is possible that some of the recommendations did not receive agreement: • Academies project – the funding aspects of the academies project do not directly impact the Welsh LGPS funds. However, there is a second strand of this project which has been looking at administration focussing on four key areas: ○ More consistency in pensions administration ○ More effective communication ○ Improved training at local, regional and national level, and ○ Clarifying the duties and responsibilities of stakeholders One of the key outcomes is the appreciation of what a major obstacle data is, and particularly the inconsistency of the format of data being submitted by academies. With this in mind the Scheme Advisory Board is carrying out a piece of work to develop a scheme wide universal monthly employer extract for future consultation. • Code of Transparency – the update of the LGPS Code of Transparency has been extremely positive with many fund managers, LGPS administering authorities and asset pool operators demonstrating greater transparency in their fees as part of their ongoing reporting. The Scheme Advisory Board has been considering how best to ensure a high level of engagement but also

	ensuring the accuracy of the information being reported through some sort of compliance checking. SAB were asked at their meeting in June to agree to commence a procurement process for a system to be developed to carry out compliance checking. In addition it has been proposed that the Scheme Annual Report, which is made up of information from each LGPS Fund's Annual Report and Accounts, is enhanced to include additional information on investment costs. • LGPS third tier employers – SAB are looking to identify the potential funding, legal and administrative issues and liabilities relating to admitted and scheduled bodies that do not benefit from local or national tax payer backing (Tier 3 employers). Aon were commissioned to assist with this project. At the June meeting SAB considered Aon's report relating to the current issues faced by the LGPS and associated stakeholders in relation to Tier 3 employers participating in LGPS funds in England and Wales. The outcomes of this are not yet known. • SAB Cost Control Mechanism – the provision results of the valuation undertaken by GAD were reported to the SAB at their June meeting. The provisional assessment of the overall cost of the scheme is 19.8% of pay, compared with the target overall cost of 19.5%. The outcome of the discussions at SAB is not yet known. However, the Fund Actuary will provide comment on the potential implications of this at the Committee meeting. • 2018/19 SAB work plan/budget - At its June meeting the Scheme Advisory Board agreed its budget for the 2018/19 work plan. This includes three new areas of work: o Separation – this project commenced a number of years ago but was put on hold whilst asset pooling was in its initial stages. The objective would be to identify both the issues deriving from the current scheme administrative arrangements of the LGPS and the potential benefits of further increasing the level of separation between the host authority and the scheme manager/administering authority role. SAB are now tendering for a consultant to carry out some of this work. Hymans Robertson is hosting an event on 18 September where this topic will be discussed. Further information at Appendix 4. The event will be attended by the Pension Finance Manager. Anyone else who wishes to attend should advise Debbie Fielder, Pension Finance Manager. o Statutory guidance – MHCLG have proposed a project to identify regulations which may be better sited within statutory guidance and assist with the drafting of revised regulations and guidance. o Data scoring for scheme specific data – SAB are planning to develop guidance for administering authorities in relation to how data should be assessed. This work did commence this year but has been deferred due to the complexity of it. In the meantime, each administering authority is determining their own process for scoring data for 2018.
1.05	*Aon Administering Authority Survey* Aon carried out a study of organisational structures and pay within LGPS

	administering authorities during the period from March to June 2018 and the summary results have now been published to those authorities who have taken part. The survey was completed by 31 administering authorities, covering 34 funds in England and Wales, which provided information on 1,260 FTE posts. The results of the survey provide a useful comparison with other LGPS Funds which we are receiving further analysis on. The key observations overall are: • Unsurprisingly, the average number of employers, members, and staff is strongly tied to the market value of the fund, with the strongest correlation being between average number of members and market value of the fund. • Most administering authorities who responded only offer salary, not other elements of pay. However, around 20% pay a Market Supplement/Premium. • Aon did not find a correlation between salary and market value of the fund. However, London-based administering authorities pay their staff consistently more than non-London administering authorities, across all levels. • 40% of administering authorities who responded are planning to make changes to their organisational structure. We are further analysing the results in relation to CPF compared with the universe but initial results highlight that pay levels may be below average for nearly all Pension Fund staff other than support staff. The more detailed analysis may provide explanations for this observation.
1.06	**Policy and Strategy Implementation and Monitoring** *Training Policy* The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to: • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. Appendix 2 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Appendix 2 also includes training and various external events attended by Committee Members and Pension Board members during 2018/19. Appendix 3 includes details of planned training events including forthcoming events considered suitable for general awareness training. A Welsh LGPS Funds Responsible Investment Seminar is being hosted by PIRC on 31 October 2018 in Cardiff (10am to 2.30pm). We have been allocated seven spaces to attend this event. All those wishing to attend should contact Debbie Fielder, Pension Finance Manager. Members have already been advised that the planned training day on 13 September 2018 has been cancelled. The key elements of training identified for this year have been delivered to the majority of members. A

	catch up day will be organised for some members, and officers will continue to consider any specific topics that merit further training. In the meantime, Committee members are reminded to highlight, at any point, topics where they feel they need further training.
1.07	*Recording and Reporting Breaches Procedure* The Fund's procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 5 details a number of current breaches that have been identified. As highlighted in the Part 2 report, the breach relating to the employer error has been reported to the Pensions Regulator.
1.08	*Conflicts of Interest Policy* The Fund's Conflicts of Interest Policy was originally agreed in March 2015. It is good practice to regularly review all policies. The Committee are asked to consider and approve proposed changes which are highlighted in the Policy which is attached as Appendix 9. The majority of the changes relate to the implementation of asset pooling, recognising the potential for conflicts of interest to arise in relation to the additional roles and responsibilities associated with asset pooling.
1.09	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.
1.09	**Calendar of Future Events** Appendix 6 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.

2.00	**RESOURCE IMPLICATIONS**
2.01	The report touches on the ongoing challenges as a result of the current workloads and the recent retirement of a Finance Manager. The Pension Fund Manager is continuing to ensure work is prioritised appropriately but it is likely that some non-essential tasks are not being carried out until the full staffing establishment is achieved.

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 7 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The key governance risks continue to relate to: • potentially insufficient resource, which puts a risk on us being able to deliver our legal and policy objectives • the impact of externally led influence and scheme change (such as asset pooling) which could also restrict our ability to meet our objectives and/or legal responsibilities. The likelihood in relation to risk number 6 has been increased from significant to very high. This risk relates to the risk of services not being delivered to meet legal and policy objectives due to insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit). It is considered this is now very high as of further challenges with sickness and recruitment in an environment where workloads are increasing even further, particularly in the Administration Team where a number of new workload challenges have come to light.

5.00	**APPENDICES**
5.01	Appendix 1 – Business plan progress Appendix 2 - Training undertaken Appendix 3 – Training plan Appendix 4 - Hymans Robertson – LGPS Governance: going our separate ways event Appendix 5 – Breaches Appendix 6 – Calendar of future events Appendix 7 – Risk register Appendix 8 – 27 February 2018 Pension Board minutes Appendix 9 – Draft Conflicts of Interest Policy

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	No relevant background documents. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – 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 (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. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation. (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pensions Partnership asset pooling arrangement.

APPENDIX 1

Business Plan 2018/19 to 2020/21 – Q1 Update
Governance

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Governance Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
G1	Data protection changes	x					
G2	Review appointment of Pension Fund Committee Representatives and Local Board Members	x				x	x
G3	Review of Governance Related Policies	x	xM	x		x	x
G4	Cybercrime	x	x	x			
G5	Structure Review of Finance Team	x	x	x			
G6	Review/ Tender Actuarial Contract	x	x	x			

Governance Task Descriptions

G1 – Data Protection Changes

What is it?

The General Data Protection Regulation is an EU regulation which will come into force from 25th May 2018, building on the existing Data Protection Act. This new regulation introduces stricter compliance requirements and much higher fines for non-compliance.

The main areas affecting the LGPS include the need to keep records of processing activities; enhanced privacy notices for members; privacy impact assessments where there is a high risk to the rights and freedoms of individuals; and the need to redraft any service level agreements to take account of new mandatory provisions. Funds must also put in place a data breach handling procedure as the new rules will require reporting of a breach within 72 hours.

Further information is available from the website of the Information Commissioner's Office.

Timescales and Stages

Understand implications and update processes	2018/19 Q1

Resource and Budget Implications

It is expected that all internal costs will be met from the existing budget.

G2 - Review appointment of Pension Fund Committee Representatives and Local Board Members

What is it?

The employer and scheme member representatives on the Local Board are appointed for a period of three years. This period may be extended to up to five years. The currently appointments will be subject to review as follows:

- Two scheme employer representatives – July 2020 (five year point)
- Scheme member representative (trade union) – October 2020 (three year point)
- Scheme member representative (non-trade union) – July 2023 (assumed three year point but appointment still in progress)

The representative members (for other scheme employers and scheme members) on the Pension Fund Committee are appointed for a period of not more than six years. The existing representative members were appointed in July 2014 and may be reappointed for further terms. However their existing appointments will need reviewed by July 2020.

Timescales and Stages

Finalise appointment of new Pension Board scheme member representative (non-trade union)	2018/19 Q1
Review and recruit current Pension Board (2 x employer plus trade union scheme representative)	2019/20 Q4 & 2020/21 Q1/2
Review existing Pension Fund Committee representatives	2019/20 Q4 & 2020/21 Q1/2

Resource and Budget Implications

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. All costs are being met from the existing budget.

G3– Review of Governance Related Policies

What is it?

The CPF has a number of policies focussing on the good governance of the Fund, as follows:

- Conflicts of Interest Policy - March 2015
- Procedure for Recording and Reporting Breaches of the Law - November 2015
- Training Policy – November 2015
- Risk Policy – September 2017
- Governance Policy and Compliance Statement – March 2017

All of these policies are subject to a fundamental review at least every three years. In addition, the reviews will incorporate any changes as a result of the move to asset pooling with the Wales Pensions Partnership.

Timescales and Stages

Conflicts of Interest Policy - March 2015	2018/19 Q1
Procedure for Recording and Reporting Breaches of the Law & Training Policy - November 2015	2018/19 Q3
Governance Policy and Compliance Statement – March 2017	2019/20 Q1
Risk Policy – September 2017	2020/21 Q2/3

Resource and Budget Implications

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. Estimated costs are included in the budget.

G4 – Cybercrime

What is it?

With large volumes of personal and financial data processed within a relatively less sophisticated security environment by comparison to other financial institutions, pension schemes are an increasingly attractive target for cybercriminals. LGPS funds predominantly rely on the processes and security of their parent local authorities due to the IT systems sitting on local authority infrastructure.

Flintshire County Council currently have a programme of work considering the risk of cybercrime. It is planned that the pension team will be part of this work but will then expand it as required to give appropriate assurances on the security of the pension systems, and a better understanding of any ongoing work required to ensure the appropriate level of security remains.

Timescales and Stages

Ongoing work with FCC on council's cybercrime programme	2018/19 Q1 to Q2
Understand and develop any ongoing CPF specific cybercrime requirements	2018/19 Q1 to Q3

Resource and Budget Implications

It is expected this will mainly involve the Pension Administration Manager working with Council staff. No additional budget has been assumed for external parties at this point.

G5 – Structure review of Finance Team

What is it?

As a result of the retirement of a Finance Manager, the impact of asset pooling, the increased work associated with Governance, and the need to reduce the risk associated with key persons within the structure, the Finance Team is being restructured.

Timescales and Stages

Finalise structure and carry out recruitment	2018/19 Q1 to Q3

Resource and Budget Implications

To be led by Pension Fund Manager with FCC Human Resources Team. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget and these are not yet included in the proposed budget. Additional costs that may arise as a result of greater use of consultants during the period of implementation and whilst posts remain vacant are estimated in the proposed budget.

G6 – Review/Tender Actuarial Contract

What is it?

The Council needs to review its current actuarial contract to ensure it is getting all the services it wants at the appropriate price and at what it considers to be value for money. This review should include Funding Risk Management and Benefit Consultancy Services. Following this review, and discussions with procurement, the Council needs to put the actuarial contract out to tender. Due to the triennial actuarial valuation of the Fund during 2016/17 and the ongoing need to prioritise work around asset pooling, this was deferred.

Timescales and Stages

Review current actuarial contract and identify tender process	2018/19 Q1
Conduct tender for actuarial services	2018/19 Q2/3

Resource and Budget Implications

To be led by Pension Finance Manager. All internal costs are being met from the existing budget.

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	**Cllr T Palmer**	S Hibbert
Committees (3hrs)									
June 2018	✓	✓	✓	✓		✓	✓	✓	✓
September 2018									
November 2018									
Special Committee February 2019									
March 2019									
CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers									
Governance (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Administration (day)									
Funding & Actuarial (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Investments (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	
Accounting									
Additional Training & Hot Topics									
Statement of Accounts (June Committee)	✓	✓	✓	✓		✓	✓	✓	✓
CPF Annual Employer Admin Meeting (am)									
CPF AJCM (pm)									

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Conferences (Restricted spaces)									
PLSA 21-23 May 2018									✓
LGC Investment Summit (1.5 days) Sept 2018									
AON Governance (1 day) July 2018	✓								
AON Investments (1 day) July 2018	✓								✓
PIRC Responsible Investing for WPP (1 day Oct 2018)									
LAPFF Annual Conference (1.5 days) Dec 2018									
LGC Seminar (1.5 days) March 2019									
Cross Pool Open Forum March 2019									

Clwyd Pension Fund

Training Plan 2018/ 19 - as at 7 August 2018

Title of session	Training Content	Timescale	Training Length	Audience	Complete
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, fundiong and protections)	20/09/2017	Before Cttee	Committee, Pensions Board and Officers	Deferred
Day 1 - Induction / Refresher Training Investments	New Member Induction and additional identified from individual TNA.	11/04/2018	1 day	Committee, Pensions Board and Officers	Y
Day 2 - Induction / Refresher Training Governance & Funding	New Member Induction and additional identified from individual TNA.	25/04/2018	1 day	Committee, Pensions Board and Officers	Y
PLSA Local Authority Conference, Gloucestershire	Various	21-23/05/2018	3 days	Committee, Pensions Board and Officers	Y
CIPFA Local Pension Board Seminars	Annual Event	27/06/2018 London	9.30 - 16.00	Pension Board	Y
AON Day Training	Governance	05/07/2018	1 Day	Committee, Pensions Board	Y
AON Day Training	Investments	30/07/2018	1 Day	Committee, Pensions Board	Y
Day 3 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	13/09/2018	1 day	Committee, Pensions Board and Officers	Deferred
LGA Annual Conference	TBC	TBC	2 day	Committee, Pensions Board and Officers	
LGC Investment Summit, Newport	Various topical presentations.	5-7/09/2018	1.5 days	Committee, Pensions Board and Officers	
Day 4 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Welsh Pension Funds Responsible Investment Seminar	Pirc Responsible Investing	31/10/2018 Cardiff	1 day	Committee, Pensions Board and Officers	
LGA Fundamentals Training	Day 1 Benefits, Investments, Costs	02/10/18 Leeds 10/10/18 London 17/10/18 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 2 Actuarial Valuation, FSS, Committee responsibilities, Communication Strategies, Alternative Investments	06/11/18 Leeds 30/10/18 London 13/11/18 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 3 Responsible Investing, Data quality, Governance	05/12/18 Leeds 4/12/18 London 11/12/18 Cardiff	1 day	Committee, Pensions Board	
LAPFF, Bournmouth	Various topical presentations around the work of the LAPFF	5-7/12/2018	2	Committee, Officer	
LGC Investment Seminar, Carden Park	Various	28/02/2019	2 days	Committee, Pensions Board and Officers	

Mae'r dudalen hon yn wag yn bwrpasol

HYMANS ROBERTSON

LGPS Governance: going our separate ways?

The governance landscape in the LGPS has changed hugely in the last 3 years with the arrival of The Pensions Regulator, pension boards and pooling, but is there greater change still to come?

With the issue of greater separation of LGPS funds from their host authorities set to be a big talking point this year, our panel of experts will discuss what the optimum governance structure (or structures) for the LGPS should be. Join us on Wednesday 19 September for an engaging session from all parties:

- **SAB Consultation**: why separation is back on the agenda
- **What's possible?**: a range of possible separation models
- **The view of our current trustees**: findings from our National Confidence Assessment
- **The view of the Regulator**: Governance in the LGPS
- **The view from the practitioners**: the pros and cons of separation

The day will provide an opportunity to evaluate the various models of separation and will provide relevant training for anyone on an LGPS pension committee or board.

There will be plenty of opportunity for you to put your views forward - we hope you can join us.

Please click here to register your place.

Who should attend?
This seminar will be relevant for Pension Officers, Section 151 Officers, Pension Board and Committee Members.

Ian Colvin
Head of LGPS Benefits Consultancy & Governance
T: 0141 566 7923
E: ian.colvin@hymans.co.uk

When

19 September 2018
9.30am - 2.45pm

Register here

Where

etc venues
Fenchurch Street,
8 Fenchurch Place,
London, EC3M 4PB

Please click here to view the venue location

Mae'r dudalen hon yn wag yn bwrpasol

Current recorded breaches of the law

Ref.	9	**Date first recorded**	9/19/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No

Breach by	Clwyd Pension Fund
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled. Due to a combination of late notification from employers and untimely action by CPF the Legal requirement was not met. Q1 17/18 547 cases completed / 61%(338) were in breach. Q2 17/18 408 cases completed / 72% (292) were in breach. Q3 17/18 381 cases completed / 38% (375) were in breach. Q4 17/18 1340 cases completed / 78% (1041) were in breach. Q1 18/19/ Of 1246 cases completed / 84%(1050) were in breach
Possible effect and wider implications	Late scheme information sent to member which may result in lack of understanding and/or complaint from member affecting scheme reputation.
Reaction to breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). - Set up of Employer Liasion Team(ELT) to monitor and provide joiner details more timelessly. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time.
Outstanding actions	Ongoing roll out of i-Connect and bedding in of new staff/ training. Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). Contacting employers which are causing delays. Reviewing staff resources.

Ref.	11	**Date first recorded**	9/19/2017	**Owner**	H Burnham

Category	Administration	**Reported to TPR**	No
Breach by	Clwyd Pension Fund		
Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. Q1 17/18 Of 59 cases completed 44% (26) were in breach. Q2 17/18 Of 77 cases completed 29% (22) were in breach Q3 17/18 66 cases completed / 41% (27) were in breach Q4 17/18 33 cases completed / 30% (10) were in breach Q1 18/19 Of 60 cases completed 42% (25)were in breach.		
Possible effect and wider implications	Information being provided to scheme members later than hoped. Could have some financial implications. Members may contact the section to enquire as to the progress of the transfer.		
Reaction to breach	Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with more timelessly.		
Outstanding actions	Completion of training of team members in transfer and aggregation processes. Reviewing staff resources.		

Ref.	12	**Date first recorded**	9/19/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and cause of breach	Requirement to provide details of transfer value for transfer out, on request within 3 months from date of request (CETV estimate) Late completion of calculation and notification by CPF. Only 2 members of team fully trained to provide transfer details due to new team structure and additional training requirements Q1 17/18 Of 77 cases completed 27% (21) were in breach Q2 17/18 Of 63 cases completed 8% (5) were in breach Q3 17/18 193 cases completed / 4% (7) were in breach Q4 17/18 49 cases completed / 0% (0) were in				

	breach Kept open to monitor situation for next quarter. Q1 18/19/ of 119 cases completed 10%)(12) were in breach
Possible effect and wider implications	Information being provided to scheme members/new scheme later than hoped. Could have some financial implications. Members and providers may contact the section to enquire as to the progress of the transfer.
Reaction to breach	Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with more timely.
Outstanding actions	Completion of training of team members in transfer and aggregation processes. Reviewing staff resources.

Ref.	13	**Date first recorded**	9/19/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and cause of breach	Requirement to provide notification of amount of retirement benefits 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of late notification by employer and late completion of calculation by CPF. Also, delay in receipt of AVC fund values from AVC provider. Q1 17/18 284 cases completed / 31% (87) were in breach Q2 17/18 196 cases completed / 31% (61) were in breach Q3 17/18 237 cases completed / 43% (103) were in breach Q4 17/18 243 cases completed / 51% (124) were in breach Q1 18/19 Of 297 cases completed 31% (91) were in breach				
Possible effect and wider implications	Late payment of benefits which may miss payroll deadlines and result in accrual of interest on lump sums/pensions. Members upset about delays.				
Reaction to breach	Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). Set up of ELT to monitor and provide leaver details more timely. Prioritising of task allocation. Set up of new process with one AVC provider to access AVC fund information.				
Outstanding actions	Further training of newly promoted team member to deal with volume of work. Identifying which				

	employers are causing delays. Reviewing staff resources.

Ref.	14	**Date first recorded**	9/20/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and cause of breach	Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless there is a previous request in the last year. Delays are late completion of calculation by CPF. Increasing estimate requests being made by members is causing problems. Q1 17/18 140 cases completed 34% (47) in breach Q2 17/18 155 cases completed 41% (65) in breach Q3 17/18 136 cases completed / 36% (49) were in breach Q4 17/18 56 cases completed / 38% (21) were in breach Q1 18/19/ of 79 csses completed 32% (25) were in breach				
Possible effect and wider implications	Late notification of benefits/costs to member/employer resulting in complaints and poor understanding/ missed opportunities. Section contacted to check on progress of estimate.				
Reaction to breach	Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. Further training of team members also required. Task allocation reviewed by team leaders. Estimates have been prioritis				
Outstanding actions	Additional staff training. Reviewing staff resources.				

Ref.	15	**Date first recorded**	9/20/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and cause of breach	Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirement are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to				

	complete the task. Q1 17-18 41 cases 58% (24) in breach Q2 17/18 47 cases 66% (31) in breach Q3 17/18 27 cases completed / 67% (18) were in breach Q4 17/18 38 cases completed / 39% (15) were in breach Q1 18/19/ of 53 cases completed 32% (17) were in breach
Possible effect and wider implications	Late payment of benefits which may miss payroll deadlines and result in accrual of interest on lump sums/pensions. Beneficiaries upset about delays.
Reaction to breach	Further training of team and review of process to improve outcome (review now complete).
Outstanding actions	Further staff training required. Reviewing staff resources.

Ref .	16	**Date first recorded**	10/30/2017	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				
Description and cause of breach	Requirement to issue annual benefit statements by 31st August each year. For 2017, all benefit statements were sent out to members on time apart from those members within the following employers: a) Connahs Quay High School – 68 members due to non-receipt of year end return b) Cefn Mawr Community Council – 2 members due to non-receipt of year end return c) Coedpoeth Community Council – 6 members due to non-receipt of 15/16 year end return (we have received return for 16/17 but require 15/16 to produce statements)				
Possible effect and wider implications	Member less aware of pension provision. Member upset at not receiving statement on time.				
Reaction to breach	a) Payroll provided by a payroll bureau. This has been chased up to no avail. FCC HR(Schools) are aware of the issue. b) Has been followed up but training required. c) have sent the data but it has not been received. It is being pursued. Update 30-11-17 - a) received c) received b) further reminder to be sent. Update 6/6/18 - despite ongoing chasing, information for 2017 has not been received albeit 2018 information has now been received.				
Outstanding actions	Continue to chase for missing information from Cefn				

	Mawr Community Council

Ref.	17	**Date first recorded**	6/5/2018	**Owner**	D Fielder
Category	Contributions			**Reported to TPR**	No
Breach by	Employers				
Description and cause of breach	Three employers have been late in paying contributions. These are shown below along with number of late payments for April 18: Argoed - 1 CoedPoeth -1 Marchwiel- 1				
Possible effect and wider implications	Could expose employers to late payment interest charge. Assumptions regarding funding assume regular monthly payment, not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.				
Reaction to breach	Argoed no details Coed Poeth ongoing issues. Marchweil ongoing. All contacted to chase outstanding payments				
Outstanding actions	Ongoing and regular chasing				

Ref.	18	**Date first recorded**	6/5/2018	**Owner**	D Fielder
Category	Contributions			**Reported to TPR**	No
Breach by	Employers				
Description and cause of breach	The following employers have not yet sent the remittance advice for April 2018: a) Aura, Newydd, FCC b) Acton c) Argoed d) Civica e) Coedpoeth f) Coleg Cambria g) Denbigh Youth h) Marchweil				
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.				
Reaction to breach	Contacted employers to chase. Now received remittance advices for Aura, Newydd and FCC but still chasing the others outstanding.				
Outstanding actions	Ongoing and regular chasing				

Ref	19	**Date**	6/5/2018	**Owner**	H Burnham

.		**first recorded**			
Category	Administration			**Reported to TPR**	Yes
Breach by	One employer (confidential)				
Description and cause of breach	[Information removed for confidentiality purposes]				
Possible effect and wider implications	CARE pension will be under or over stated and for those who have retired, CARE pension will be under or overpaid. Might also impact the amount of employer contributions that should have been paid.				
Reaction to breach	Working group set up to: - Identify cases that have been impacted and advise Administration Section. - Work with payroll provider to ensure root problem is resolved.				
Outstanding actions	- Resolve root problem - Work with CPF to agree approach for resolving affected cases				

Ref.	20	**Date first recorded**	6/5/2018	**Owner**	H Burnham
Category	Administration			**Reported to TPR**	Yes
Breach by	Clwyd Pension Fund				
Description and cause of breach	[Information removed for confidentiality purposes]				
Possible effect and wider implications	CARE pension will be under or over stated and for those who have retired, CARE pension will be under or overpaid. Might also impact the amount of employer contributions that should have been paid.				
Reaction to breach	Working group set up to - Identify cases that have been impacted and consider options for correcting. - Work with employer to ensure root problem is resolved.				
Outstanding actions	- Identify and analyse case to understand full impact - Develop plan of action and work with employer for approach for resolving affected cases - Work with employer to ensure root problem is resolved				

Ref.	21	**Date first recorded**	8/29/2018	**Owner**	Administration
Category	Administration			**Reported to TPR**	No
Breach by	Clwyd Pension Fund				

Description and cause of breach	To inform members who leave the scheme of their leaver rights and options. As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member). Q1 17/18 284 cases completed 1 case (< 1%) was late by 2 Q1 18/19/ of 437 cases completed 40% (173) were in breach
Possible effect and wider implications	Member less aware of pension provision. Member upset at not receiving statement on time.
Reaction to breach	Pensions assistants who complete this task have been required to concentrate on completing joiner cases.
Outstanding actions	Reviewing staff resources.

Ref.	22	**Date first recorded**	8/28/2018	**Owner**	D Fielder
Category	Contributions			**Reported to TPR**	No
Breach by	Employers				
Description and cause of breach	Two employers have been late in paying contributions. These are shown below along with number of late payments for May and June 18: Argoed - May and June late Marchwiel -May and June late Home Farm Trustl- May late				
Possible effect and wider implications	Could expose employers to late payment interest charge. Assumptions regarding funding assume regular monthly payment, not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.				
Reaction to breach	Argoed now up to date and paying on time,Hame Farm Trust up to date and paying on time. Marchwiel contacted to resolve issues.				
Outstanding actions	Ongoing and regular chasing				

Month	Date	Day	Committee
2018			
April	11 Apr	Wed	
	25 Apr	Wed	
	21 - 23	Mon - Wed	
June	13 Jun	Wed	AM
	27 Jun	Wed	
	28 Jun	Thu	
September	05 Sep	Wed	9.30am - 1pm
	5-7 Sept	Wed - Fri	
October	02 Oct	Tue	
	10 Oct	Wed	
	11-Oct	Thu	
	17-Oct	Wed	
	30-Oct	Tue	
	31-Oct	Wed	
November	06-Nov	Tue	
	13-Nov	Tue	
	28-Nov	Wed	9.30am - 1pm
December	04-Dec	Tue	
	05-Dec	Wed	
	5 - 7 Dec	Wed - Fri	
	11-Dec	Tue	
2019			

February	20-Feb	Wed	9.30am - 1pm
	27-Feb	Wed	
	28 Feb - 1 Mar	Thur - Fri	
March	20-Mar	Wed	2pm - 5pm
June	12-Jun	Wed	9.30am - 1pm

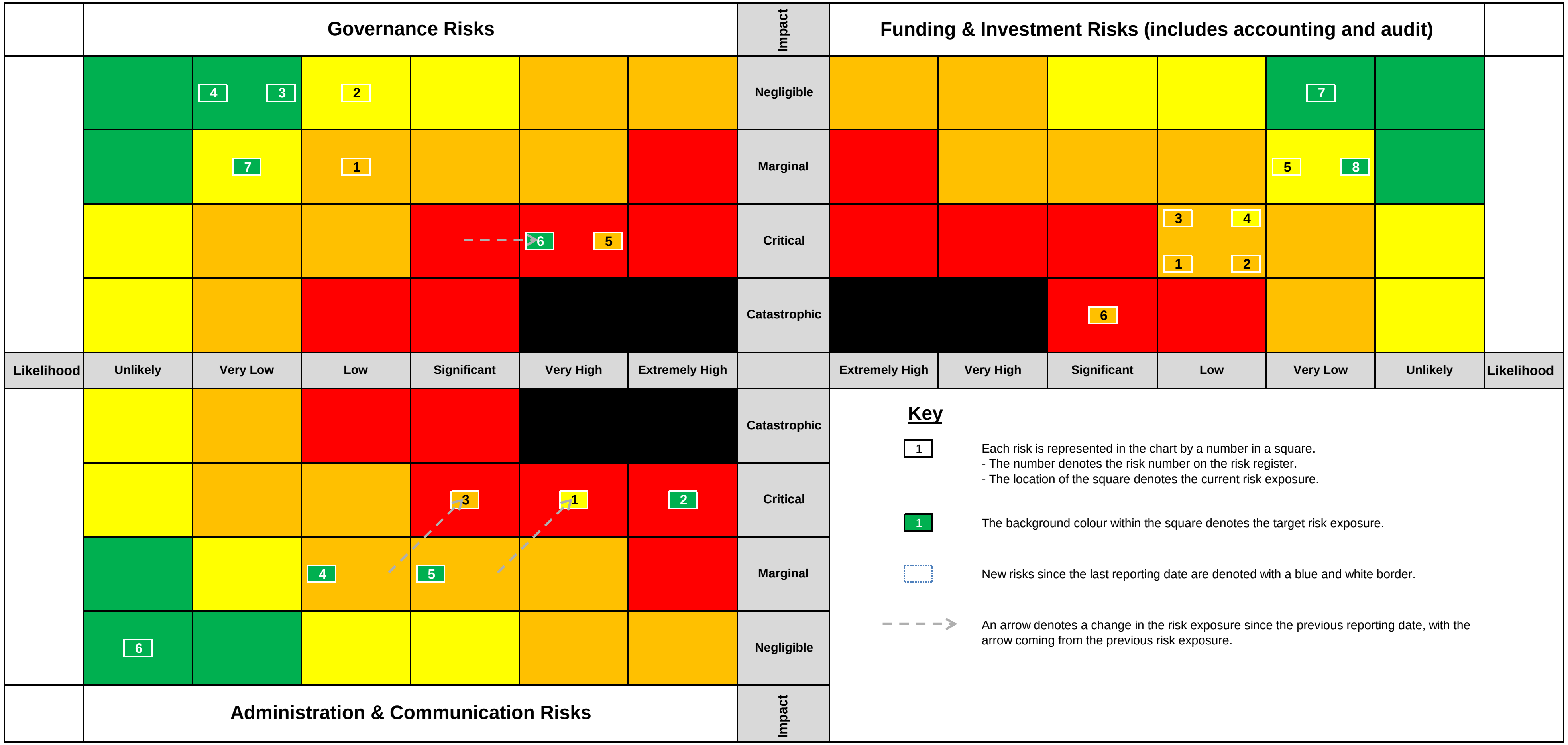
Training	Pension Board
Day 1 Induction/ Refresher Training - Investments	
Day 2 Induction/ Refresher Training - Governance & Funding	
PLSA Local Authority Conference	
	CIPFA PB Annual Event
	9.30AM - 12.30PM
LGC Investment Summit	
LGA Fundamentals Day 1 Benefits, Investments, Costs	
LGA Fundamentals Day 1 Benefits, Investments, Costs	
	9.30am - 12.30pm
LGA Fundamentals Day 1 Benefits, Investments, Costs	
LGA Fundamentals Day 2 Actuarial Valuation, FSS, Committee Responsibilities, Communication Strategies, Alternative Investments	
Wales Pension Funds Responsible Investing	
LGA Fundamentals Day 2 Actuarial Valuation, FSS, Committee Responsibilities, Communication Strategies, Alternative Investments	
LGA Fundamentals Day 2 Actuarial Valuation, FSS, Committee Responsibilities, Communication Strategies, Alternative Investments	
LGA Fundamentals Day 3 Responsible Investing, Data Quality, Governance	
LGA Fundamentals Day 3 Responsible Investing, Data Quality, Governance	
LAPFF	
LGA Fundamentals Day 3 Responsible Investing, Data Quality, Governance	

	9.30am - 12.30pm
LGC Investment Seminar	

Location
Beaufort Park
County Hall
Gloucestershire
County Hall
London
County Hall
County Hall
Newport
Leeds
London
County Hall
Cardiff
AP County Hall LGA London
Cardiff
AJCM County Hall LGA Leeds
Cardiff
County Hall
London
Leeds
Bournemouth
Cardiff

County Hall
County Hall
Carden Park Chester
County Hall
County Hall

All Fund Risk Heat Map and Summary of Governance Risks **Appendix 7**



29 August 2018

Clwyd Pension Fund - Control Risk Register
Governance Risks

Objectives extracted from Governance Policy (03/2017), Training Policy (11/2015) and Procedures for Reporting Breaches of the Law (11/2015)

G1 Act in the best interests of the Fund's members and employers
G2 Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
G3 Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
G4 Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
G5 Understand and monitor risk
G6 Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
G7 Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
T1 Ensure that the Clwyd Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape.
T2 Those persons responsible for governing the Clwyd Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.
B1 Ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report.
B2 Assist in providing an early warning of possible malpractice and reduce risk.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?		Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low		☺				None	CPFM	31/03/2019	13/04/2017
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Negligible	Low		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low		☺				None	CPFM	31/03/2019	04/06/2018
3	Our fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low		1 - Conflicts of Interest policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Training Policy, Plan and monitoring in place for PC and PB members including section on responsibilities 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility	Negligible	Very Low		☺				None	CPFM	31/03/2019	13/11/2017
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		😐	Current likelihood 1 too high	01/07/2016	Jul 2018	1- Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Pension Finance Managers	30/09/2018	13/11/2017
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change, national reorganisation and asset pooling	G1 / G4 / G6 / G7	Critical	Very High		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG	Marginal	Low		😐	Current impact 1 too high Current likelihood 2 too high	28/02/2017	Dec 2018	1 - Regular ongoing monitoring by AP to consider if any action is necessary (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL) 3 - Regular consideration of impact national reorganisation at APs (PL)	CPFM	31/12/2018	04/06/2018
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Critical	Very High		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restrcuture commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6- Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low		☹	Current impact 2 too high Current likelihood 3 too high	01/07/2016	Sep 2018	1 - Complete and implement Finance team restructure, including fundamental review of future service requirements (PL) 2 - Ongoing consideration of succession planning (PL) 3 - Complete business case for Administration Team and implement the agreed outcome (PL)	CPFM	31/12/2018	27/08/2018
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low		😐	Current impact 1 too high	01/07/2016	Dec 2018	1 - Ongoing work to ensure breaches are identified and the procedure used appropriately (DF) 2 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF) 3 - Embed system of reviewing outstanding actions relating to TPR Code (HB/DF)	CPFM	31/10/2018	04/06/2018

FLINTSHIRE COUNTY COUNCIL (As Lead Authority for the Clwyd Pension Fund)

CLWYD PENSION FUND BOARD

Minutes of the meeting of the Clwyd Pension Fund Board of Flintshire County Council (as Lead Authority for the Clwyd Pension Fund), held at County Hall, Mold, on Tuesday, 27 February 2018 at 9.30am.

THE BOARD:

Present:

Chair: Mrs Karen McWilliam (Independent Member)

Member Representatives: Mrs Gaynor Brooks (by conference call), Mr Phil Pumford

Employer Representatives: Mr Mark Owen, Mr Steve Jackson

IN ATTENDANCE

Mr Philip Latham (Clwyd Pension Fund Manager and Secretary to the Board)
Mrs Debbie Fielder (Pension Finance Manager)
Mrs Helen Burnham (Pensions Administration Manager)

		Actions
1.	**APOLOGIES/ WELCOME**	
	There were no apologies. The Chair welcomed Mrs Debbie Fielder to the meeting.	
2.	**DECLARATIONS OF INTEREST**	
	No new declarations were made.	
3.	**MINUTES AND MATTERS ARISING**	
	The minutes of the meeting held on the 2 November 2017 had previously been confirmed as a correct record by all Board members via e-mail.	
	Completed and/or outstanding actions were considered as part of agenda item 4 Action Tracker.	

	Actions

4. ACTION TRACKER

The Chair introduced this item explaining that the document was designed to track all action points identified by the Board, identify completed or outstanding actions and also ensure that none are overlooked.

The contents of the Action Tracker were discussed. As previously agreed, completed actions are now removed from the Action Tracker once reported as completed to the Board.

The following points were made in relation to the Action Tracker with other actions noted as ongoing:

- 9th action (Web-site) – Feedback from some Board members had been given. Mrs McWilliam and Mr Pumford to look at web-site. Suggestion for the email address on web-site to be a hyperlink.
- 14th action (Cybercrime/IT Security/ GDPR) – Presentations to Board expected at a future meeting.
- 15th & 16th actions (TPR Code of Practice) – The Board noted resource constraints may delay these.
- 22nd action (AOB, commence process for replacement Scheme Member) – The Chair noted this was now advertised.

RESOLVED:

The Board noted the ***action tracker which is to be updated*** as agreed.

New Action – Web-site emails to be a hyperlink — **Board Secretary**

5. ADMINISTRATION UPDATE

Mrs Burnham provided the Board with an update on the following areas:

Key Performance Indicators

The Board received the summaries of KPI's for quarter 3 and quarter 4 (to Jan 2018).

She confirmed there are still some issues with death cases but

Actions

the team are looking at a full process review from a payroll and operational viewpoint.

The figures were discussed by the Board and the following questions and comments raised:

Mrs McWilliam commented that for process 1, the notification of joining the LGPS to a new scheme member is reliant on receiving information from employers.

It was observed that whilst % figures for process 2, informing members of their leaver rights and options, had been decreasing the actual numbers involved were increasing.

Mr Owen has previously asked if bullet points can be included along with the statistics to provide some explanations of the results.

Mr Latham commented that whilst we are in a good position as we are able to produce meaningful statistics, we do now need to provide the story around the numbers produced.

New action – Explanations of reasons for the results to be provided with the KPI statistics — **Board Secretary**

Current Workloads

Mrs Burnham presented details of the due dates and outstanding cases relating to the Operations, Employer Liaison and Aggregation teams. She also explained the purpose of the aggregation team. She explained how the team is expecting assistance from Mercer.

Some historical cases are still awaiting details from employers and Mr Jackson asked if this was a challenge and would the backlog exercise be completed with the increase in new cases. It was confirmed that Flintshire County Council on boarding to iConnect was imminent and this will assist in substantial improvements due to data cleansing. However this will increase the amount of work in the short term.

Mr Jackson also asked if outsourcing was a viable option but the response was this could be very difficult due to complexity of cases and there would also be a significant cost attached to the exercise.

Mrs McWilliam confirmed that she meets regularly with the Pensions team to assist in efficiency improvements in her role as Chair of the Board and asked if the Board were in agreement

with that for budget purposes. The Board gave their agreement.	**Actions**
Special Projects	
The Board were given the latest statistics of Member Self Service which showed that currently 17% of members have now registered and are actively using the site. Only 264 members (0.84%) have requested to continue being contacted by post.	
The Board offered their congratulations on the excellent take-up of MSS and for an informative report on MSS. They also fed back that they had received positive feedback on MSS from scheme members.	
The Board were informed that the GMP reconciliation project is still going to plan. There are 4 stages to the project and stage 3 is about to commence. There were queries on 700 cases but it was pleasing to note that the CPF data was of good quality compared to other LGPS Funds which is helping with progress.	
Employer Liaison	
The ELT have been having some challenges with Wrexham County Borough Council and Mr Owen commented this needs to be escalated.	
New action – Monitor the ongoing situation with WCBC	**Board Secretary**
6. DISASTER RECOVERY UPDATE	
Mrs Burnham provided an updated on progress and actions from the latest disaster recovery test.	
All feedback had now been shared and a positive discussion had been held with Wales Audit Office.	
Following on from the reliance on FCC for key systems, the Technical team were in the process of implementing the facility to raise payments for retirement lump sum payments directly from the Altair system instead of FCC accounts payable (albeit there is still the need for FCC to process the final payment).	
Mrs Burnham confirmed there would be another disaster recovery test in the near future. ***New action - The Board asked for the results to be fed back to them.***	**Board Secretary**

Actions

Mr Pumford raised the security implications if staff laptops were lost or stolen and was advised that all laptops were encrypted and advice is provided by FCC IT department.

7. CYBERCRIME/ IT SECURITY/ GDPR

It was noted that Cybercrime was being deferred to a later meeting when presentations would be made.

Mrs Burnham updated the Board on the progress being made on the GDPR project. She confirmed that this is progressing well and ahead of time as was shown in the timeline provided. A review of pensions data held on the generic FCC systems (i.e. not Altair) would need to be carried out as part of this project.

The Fund has appointed JLT Benefit Solutions for the exercise to trace deferred members.

The Fund had obtained the Data Protection policy from West Midlands Pension Fund to determine if the Fund needed its own separate policy but FCC had confirmed the Fund is covered appropriately within the FCC policy.

Mrs Brooks enquired how long the data was held for and Mrs Burnham confirmed it was being considered, for example, some parties consider that six years after the last beneficiary has died/ceased could be appropriate. However, there may be more guidance issued on this matter in due course.

All members of the team had completed the data protection training and whilst no specific training for GDPR was available from FCC at that time, it was expected to be available soon.

Mr Jackson commented that it was positive to have the assurance that the Pension section has been proactive in their requests for information during the process.

Mr Owen asked if anything is kept on paper. Mrs Burnham responded to confirm there is, it has to be identified and disclosed where it is kept. This applies to staff records as well as pension scheme member records. Information is held on the FCC Information Asset Register and there are strict processes to adhere to.

8. ASSET POOLING

The appointed operator, Link Fund Solutions and discretionary

Actions

manager, Russell Investments both made presentations to the Committee in February to provide an update on progress to date. The presentations were circulated to the Board members. Key points raised were:

Mr Latham highlighted it is not clear how some of the Fund's assets may actually manage to be pooled, such as LDI. This may raise issues with the Government.

Fee savings will be made on some asset classes but others may result in the Fund paying more than is currently the case.

The first sub fund to be implemented will be Global Equity. It will be discussed at the next OWG on March 9th. The group recognise the need to make sure time is taken over the decision making, rather than rushing and getting it wrong.

New action – To report to the next Board, the process followed and the final outcome. — **Board Secretary**

Mr Latham confirmed that Link and Russell have produced detailed plans, project timelines and a risk register, all of which are reported on a regular basis to the OWG.

The Board noted some of the key elements such as the business plan are outstanding. Mr Latham noted resource restrictions meant WPP were having to be reactive.

9. CONSIDERATION OF 29 NOVEMBER 2017 AND 21 FEBRUARY 2018 PENSION FUND COMMITTEE PAPERS

The Board discussed the Pension Fund Committee papers, in particular focusing on the two presentations from Pirc and CEM Benchmarking which preceded the presentation from Link and Russell (See item 8 above)

Mrs Brooks commented that all three presentations had been very good.

Pirc gave a good overview of performance across the LGPS and revealed that size appears to be no longer as important as first thought.

It also highlighted that more Funds are considering de risking and the Clwyd Fund have moved into this area and were ahead of the game.

Mr Owen referred to the quote in the Pirc presentation "If asset

	Actions
performance was not the main issue in the LGPS, what was?" Mr Owen asked for this to be clarified and Mr Latham confirmed the response at Committee had been liabilities should be the issue that is the key focus. The presentation from CEM which focussed specifically on the performance, costs and risk appetite of the Clwyd Pension Fund proved to be much more complicated given the amount of statistics provided. It did show the Fund as being different from many others in both their risk appetite (lower than average) and costs (higher than average) CEM raised the point that the Fund made considerable effort to access as many costs as they could from Fund Managers and they had to do little estimations. Mr Jackson praised the officers for the quality of the data provided to CEM and also commented that the complexity of the Fund positions us for all eventualities. Mrs McWilliam asked if the Fund receives details of the balance between risk and reward when any changes to the Fund strategy are made. It was confirmed that officers do get those details but not necessarily the Committee and Board members and agreed there should be more debate around these areas.	
New action – Further training session to be arranged to receive more detail on the CEM report.	**Board Secretary**
New action – At the next strategy review, ensure the balance between risk and reward is explained in detail to Committee and Board members.	**Board Secretary**
10. INPUT INTO ADVISORY PANEL AND CPF COMMITTEE The Chair opened this item up to the Pension Board by providing an overview of AP and their link to the Committee and also how the Board links in. The Board confirmed there was nothing to add to the AP or Committee.	
11. COMPLIMENTS AND COMPLAINTS An anonymised log of the latest compliments and complaints had been circulated to the Board with the agenda. Three	

Actions

complaints and two compliments had been received in the period from November to February and Mrs Burnham went through the reasons for them.

Mr Jackson commented that understanding the reasons behind complaints is welcomed as they provide opportunities for improvement.

Mr Owen commented that complaints were decreasing and there appeared to be no trends.

Board members commented that it was not clear which tabs on the document they need to be focussing on and in addition it would be useful if the document included all explanations of what had happened and the action taken in each case.

New action – The tabs showing the periods to be discussed to be highlighted on the report and actions and explanations provided. — **Board Secretary**

12. FUTURE WORK PLAN

The Chair presented the future work plan and initiated discussion. The Board agreed there was nothing further to be added at this time.

13. PENSION BOARD BUDGET MONITORING

Mrs Fielder provided an update report to the Board regarding the 2017/18 budget along with a draft budget to be agreed for 2018/19.

Although there was currently an underspend on the 2017/18 budget, it was agreed that there were still costs to be allocated for provision of training and some costs associated with the Chair that were currently included in the costs for the whole Fund.

The Board agreed that training costs should be apportioned across Committee and Board and asked if costs associated with Pooling could also be shown separately.

The budget for 2018/19 had increased but after discussion, the Board agreed these to be reasonable.

New action – Revise the budget figures to include apportionment of training in 2017/18 — **Board Secretary**

		Actions
14.	**FUTURE DATES**	
	The Board Members were provided with the latest calendar of dates for Committees, training and other events open to Board members. The next Board meeting was arranged for 27 June 2018 but no further dates had been agreed. *[Note this date was subsequently changed to 28 June 2018*].	
	Mr Jackson confirmed he would be attending the LGC training event at Carden Park in March 2018	
	New action – To send diary options for future possible Board meetings	**Board Secretary**
15.	**ANY OTHER BUSINESS**	
	Mrs Brooks confirmed that she would be attending the meeting in June which would be her last meeting. It was agreed that if a new member had been appointed by that date, the invitation to attend would be extended to them	
	No further business was raised. It was agreed that the ***draft minutes would be circulated****.*	**Board Secretary**

Mae'r dudalen hon yn wag yn bwrpasol

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

CONFLICTS OF INTEREST POLICY

September 2018

CONFLICTS OF INTEREST POLICY

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Clwyd Pension Fund, which is managed by Flintshire County Council. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Clwyd Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

Aims and Objectives

The Fund's Mission Statement is as follows:

- to be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- to have instilled a corporate culture of risk awareness, financial governance, and be providing the highest quality, distinctive services within our resources.
- to work effectively with partners, being solution focused with a can do approach.

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pension Fund Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Executive ~~Officer, People and Resources~~ (from here on in collectively referred to as the senior officers of the Fund).

The Pension Fund Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role and including responsibilities representing the Fund on other committees, groups and bodies.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Fund Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority and any other body on which they represent the Administering Authority, on any actual or potential conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013
Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. ~~At the point of writing this Policy,~~ The LGPS national scheme advisory board issued guidance relating to the establishment of Pension Boards including a section on conflicts of interest. ~~It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State.~~ This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004
The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

The CIPFA governance principles guidance states "*the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisors might have*." It includes some examples of how conflicts of interest could arise in these new roles. It highlights the need for Administering Authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities;
- ensure declarations are updated appropriately.

This Conflicts of Interest Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

Local Government Act 2000

All members and co-opted members of the Clwyd Pension Fund Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

The Public Services Ombudsman for Wales' Ten Guiding Principles

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The individual sections of the Flintshire County Council Members' Code of Conduct (which applies to Pension Fund Committee and Pension Board members) are designed to support the implementation of the Principles. For example, the Selflessness principle is covered by Section 7 of the Code – Selflessness and Stewardship.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

1. Selflessness
2. Honesty
3. Integrity and Propriety
4. Duty to Uphold the Law
5. Stewardship
6. Objectivity in Decision-making
7. Equality and Respect
8. Openness
9. Accountability
10. Leadership

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Other Administering Authority Requirements

Pension Fund Committee Members

In addition to the requirements of this Policy, Pension Fund Committee members and co-opted members are required to adhere to the Flintshire County Council Members' Code of Conduct which, in Part 3, includes requirements in relation to the disclosure and management of personal and prejudicial interests.

Pension Board Members

In addition to the requirements of this Policy, Pension Board members are required to adhere to Part 8 of the Pension Board Protocol which includes declaring any interests that may lead to a conflict situation.

Employees

In addition to the requirements of this Policy, officers of Flintshire County Council are required to adhere to the Flintshire County Council Officers' Code of Conduct which includes requirements in relation to the disclosure and management of personal and pecuniary interests.

Advisers

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to Flintshire County Council or other scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Clwyd Pension Fund and on which advice is required or to a supplier or organisation providing services to the Clwyd Pension Fund. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

Where the Pension Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pensions Fund Committee or Fund officers as long as there is no conflict of interest between the two roles.

Conduct at Meetings

There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pension Board or Pensions Fund Committee meeting, and that this will be recorded in the minutes.

What is a Conflict or Potential Conflict and how will they be managed?

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS fund administered by Flintshire County Council, and
- at the same time has:
  - a separate personal interest (financial or otherwise) or
  - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts are included in Appendix 1. The appendix also illustrates where disclosure of a personal or prejudicial interest may separately be required for Pension Fund Committee members (including co-opted members) under the Flintshire County Council Members' Code of Conduct.

Flintshire County Council will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

Flintshire County Council will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pension Fund Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, Flintshire County Council shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

Minor Gifts

For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items (subject to a notional maximum value of £50 per item and an overall maximum value of £100 from an individual company per event) obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Pension Fund Committee members should, however, be aware that they may be subject to lower limits and a separate notification procedure in the Flintshire County Council Members' Code of Conduct. Similarly Flintshire County Council officers may also be subject to lower limits or other restrictions within Council employee policies.

Responsibility

Flintshire County Council as the scheme manager for the Clwyd Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the procedure outlined below is carried out.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

Operational procedure for officers, Pension Fund Committee members and Pension Board members

The following procedures must be followed by all individuals to whom this policy applies.

However, it should be noted all members of the Pension Fund Committee (including co-opted members) have a pre-eminent requirement to follow and abide by the requirements of Part 3 of the Flintshire County Council Members' Code of Conduct relating to the treatment and disclosure of certain personal and prejudicial interests. Accordingly, for those members, disclosures under this policy may **be in addition** to disclosures under the Council's Code of Conduct.

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict	On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2. The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix 3.

What is required	How this will be done
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	At the commencement of any Pension Fund Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the minutes of the meeting and also in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Pension Fund Manager to the Chairman of every meeting prior to that meeting if required. At Clwyd Pension Fund Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda. Any individual who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Pension Fund Manager prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Pension Fund Manager, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter. If such a conflict is identified outside of a meeting the notification must be made to the Pension Fund Manager and where it relates to the business of any meeting, also to the Chairman of that meeting. The Pension Fund Manager, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict. Where information relating to any potential or actual conflict has been provided, the Pension Fund Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest and in the minutes of the meeting if raised during a meeting.
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Pension Fund Manager will provide to all individuals to whom this Policy applies a copy of their currently declared Pension Fund ~~'s Register of~~ conflicts of interest. All individuals will complete ~~a new Declaration of Interest (see Appendix 2)~~ confirming that their information ~~contained in the Register~~ is correct or highlighting any changes that need to be made ~~to the declaration~~. ~~Following this exercise, the updated Register will then be circulated by the Pension Fund Manager to all individuals to whom it relates.~~

Operational procedure for advisers

All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with Flintshire County Council.

Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Pension Fund Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to Flintshire County Council
- notify the Pension Fund Manager immediately should a potential or actual conflict of interest arise
- highlight at all meetings should a potential or actual conflict of interest arise, preferably at the start of the meeting.

All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

Monitoring and Reporting

The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Pension Fund Manager. ~~In addition, it will be published in the annual report and accounts.~~

In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

Key Risks

The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pension Fund Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

Costs

All costs related to the operation and implementation of this Policy will be met directly by Clwyd Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval, Review and Consultation

This Conflicts of Interest Policy was originally approved using delegated responsibilities on 24 March 2015 with amendments approved by the Pension Fund Committee on 5 September 2018. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Philip Latham,
Clwyd Pension Fund Manager, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
Telephone - 01352 702264

Examples of Potential Conflicts of Interest

Examples of Pension Related Potential Conflict of Interest	Also a Personal or Prejudicial Interest*
a) An elected member on the Pension Fund Committee may be required to provide views on a funding strategy which could result in an increase in employer contributions payable by the employer he or she represents.	No
b) A member of the Pension Fund Committee member is on the board of an Investment Manager that the Committee is considering appointing.	Yes
c) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Pension Board is reviewing the standards of service provided by that company.	No
d) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.	Yes
e) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Finance Director, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee which, if agreed would result in a material reduction in the recharges to the Council from the Fund.	No
f) Officers of the Fund are asked to provide a report to the Pension Board or Pension Fund Committee on whether the administration services should be outsourced which, if it were to happen could result in a change of employer or job insecurity for the officers.	No
g) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only serves to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pension Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.	No
h) A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, providing delegated or fiduciary management of Fund investments, providing assistance with monitoring the covenant of employers or where they are also advisers to the Wales Pensions Partnership.	No
i) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Fund Committee or Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Fund Committee or Pension Board.	No
j) An officer of the Fund or member of the Pension Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process	No

k)	An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Committee item.	No
l)	A member of the Pension Fund Committee or officer of the Fund is on a Wales Pensions Partnership committee/group and a matter is being considered that would benefit their originating Council or Pension Fund to a greater degree than other participating Councils or Funds.	No

* This indicates those interests that must also be declared by Pension Fund Committee members in accordance with the Flintshire County Council Members’ Code of Conduct.

Appendix 2

Declaration of Interests relating to the management of Clwyd Pension Fund administered by Flintshire County Council

Tick as appropriate

I, [insert full name], am:

- an officer involved in the management ☐
- Pension Fund Committee Member ☐
- Pension Board Member ☐

of Clwyd Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Clwyd Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Undertaking:

I declare that I understand my responsibilities under the Clwyd Pension Fund Conflicts of Interest Policy. I undertake to notify the Pension Fund Manager of any changes in the information set out above.

Signed ____ Date ____________________

Name (CAPITAL LETTERS) ____

Appendix 3

Clwyd Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Flintshire County Council, the Administering Authority.

Date identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified(1)	Action taken(2)	Follow up required	Date resolved

(1) E.g. verbal declaration at meeting, written conflicts declaration, etc
(2) E.g. withdrawing from a decision making process, left meeting

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS. This covers many of the current ongoing issues and the latest news since the last Committee update in June, in particular:

- A number of LGPS Funds will be selected for visits from TPR for them to assess data quality and seeking improvements in the data available.
- Deadlines are approaching for the communication of Pension Saving Statements in readiness for members to complete their HMRC Self-Assessments.
- A further update on recent mortality studies. Mercer will be performing a demographic analysis of the Clwyd Pension Fund's experience for consideration following on from the funding review in readiness for the 2019 valuation.
- The provisional findings of the Competitions and Markets Authority investigation into investment consultancy and fiduciary management markets.
- Confirmation of the tax treatment of Exit Credits in the Local Government Pension Scheme (Amendment) Regulations 2018.
- Reminders of the benefits of an active risk management framework – Members will be aware that the Clwyd Pension Fund is operating a very active framework via the flightpath strategy.
- The GAD's "Section 13" report is expected to be published in September.

RECOMMENDATIONS	
1	It is recommended that all Committee members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

REPORT DETAILS

1.00	**LGPS Current Issues**
1.01	The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS. Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.
1.02	Key points to be aware of are: • Since the production of Mercer's publication, it has been confirmed by TPR that only 10 LGPS Funds will be selected for visits for them to assess data quality and seeking improvements in the data available. There will be no pre-publicity or warning on this, so Funds are advised to look out for any communication from the Regulator. • The anticipated flurry of queries as deadlines approach for communication of Pension Saving Statements. This can be complicated for members and given HMRC Self-Assessment deadlines, Mercer are running information sessions throughout Q4 2018. • Some high level comments on recent mortality studies. Mercer will be performing a demographic analysis of the Clwyd Pension Fund's experience for consideration alongside the actuarial valuation. • The provisional findings of the Competitions and Markets Authority investigation into investment consultancy and fiduciary management markets; including proposing an obligation for competitive tenders when moving to fiduciary management and greater disclosure requirements on firms relating to fees and performance. • Confirmation from HMRC of the tax position for any credits paid (a different approach has been confirmed when compared to private sector occupational DB schemes, where no tax charge would be payable). • The GAD's "Section 13" report is expected to be published in September. Fund's that are flagged under the report are currently having dialogue with GAD. The Clwyd Pension Fund is not one of these.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, the review of and update to Fund policies will require some officer and advisor resource to ensure the Fund is well placed going forward. Also the next round of Pension Saving Statements could result in administration resources required to respond to queries arising.

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

4.00	**RISK MANAGEMENT**
4.01	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): • Governance risks: G2 & G7. • Funding and Investment risks: F1, F5

5.00	**APPENDICES**
5.01	Appendix 1 – LGPS Current Issues - August 2018 edition

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(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 (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. (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 (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.

(e) **GAD** - The Government Actuary's Department.

(f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of

(g) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS

(h) **LGA - The Local Government Association** - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS.

(i) **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.

(j) **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.

(k) **CARE** – **Career Average Revalued Earnings –** With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

(l) **Annual Allowance –** the annual allowance is a limit on the capital amount that individuals can contribute to their pension each year, while still receiving tax relief. The standard Annual Allowance is £40,000 in any year. For members who taxable earnings are over £110,000 they can fall into the Tapered Annual Allowance which falls between £10,000 and £40,000 depending on their level of earnings.

(m) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as "New Fair Deal", which amends some of the previous guidance.

(n) **Scheme Pays** – the option for a member to ask the Fund to pay any tax associated with breaching the Annual Allowance. The Mandatory Scheme Pays option applied where a members exceeds the statutory Annual Allowance limit of £40,000. The Voluntary Scheme Pays option applies when a member falls into Tapered Annual Allowance or their tax charge is less then £2,000. Voluntary Scheme Pays can be used at the discretion of the Administering Authority.

	(o) **Section 114 Notice** – Refers to Section 114 of the Local Government Finance Act 1988. Once a council issues a notice under section 114 it is prohibited from entering into new agreements that incur expenditure and must strive to set a balanced budget. (p) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see it's Code of Practice 14).

Mae'r dudalen hon yn wag yn bwrpasol

LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

HOT TOPICS

PENSIONS TAXATION SEMINARS 2018 – For LGPS officers and administrators, it will soon be pension saving statements season again (with deadlines of 31 August and 6 October respectively). This brings with it the usual raft of queries from members expecting to be provided with information, not least so they can fill in their HMRC self-assessment correctly. Not only can the **line between providing information and advice be sometimes blurred** depending on the questions being asked, from discussions we've had with officers and feedback from seminars, it's clear that queries from members and employers regarding the Annual Allowance, Tapered Annual Allowance and Lifetime Allowance have become an onerous burden for LGPS Funds at this time of year.

To assist funds deal with these challenges and the associated risks, we are again running information sessions for individuals potentially affected. These include a full range of assistance from general educational sessions, triage sessions through to one on one individual financial advice.

The sessions will run throughout Q4 and to express your interest, please contact Clive Lewis (0151 242 7297) or your usual Mercer consultant.

NEW "S3" SERIES MORTALITY TABLES – In the last edition of current issues we reported that life expectancy improvements were slowing down and that LGPS funds could expect to see reductions in liabilities of around 2% as a result. Since then the Institute and Faculty of Actuaries' (IFoA's) Continuous Mortality Investigation (CMI) is currently consulting on its proposed new "S3" Series mortality tables for pension schemes. The "S1", "S2" and "S3" tables are based on the experience of occupational pension schemes with "S3" being the most recent.

In the absence of any Fund specific mortality analysis, the impact of moving to the "S3" tables will be an increase in male life expectancy at 65 of 1.5% and an increase in female life expectancy of 3%. At a headline level, the improvement in life expectancy suggested by the new "S3" tables would appear to conflict with the comments made in the last edition that life expectancy improvements are slowing down, leading to lower LGPS liabilities. However, due to differences in the underlying data used to produce them, the "S3" tables are not derived consistently with the "S2" tables and are, therefore, not directly comparable.

Crucially, it appears that that increases in life expectancy improvements being evidenced in the S3 tables are due to the public sector data from outside the LGPS sector (i.e. a greater portion of NHS, TPS and Civil Service data is being used in the analysis than previously). LGPS funds therefore need to be careful to avoid automatically reflecting this inflation without scheme-specific consideration; doing so would be most likely to over-stating the value placed on liabilities.

COMPETITION AND MARKETS AUTHORITY PROBE – On 18 July 2018, the Competition and Markets Authority (CMA) published provisional findings from its Market Investigation into the UK's investment consultancy and fiduciary management markets. The CMA's report, whilst recognising the markets' many positive features, proposes remedies to address some concerns it has identified. These include:

- an obligation on pension scheme trustees to run a competitive tendering process when first moving to fiduciary management, and
- introducing disclosure requirements on firms relating to fees and performance.

The CMA has invited feedback on its proposals, by 24 August 2018 with a final report due in March 2019.

EXIT CREDITS TAX POSITION CONFIRMED - Until now there had been some uncertainty over the potential tax treatment of an exit credit payment to an employer where at the exit date, that employer's assets in the Fund exceeded its liabilities. On 23 July 2018, MHCLG received confirmation from HMRC there will be no tax charge on the payment and that there is no requirement for the scheme administrator of the pension scheme to report the payment to HMRC.

This announcement was somewhat surprising as it does not mirror the position for private sector occupational DB schemes (where refunds are subject to a free standing tax charge of 35%). It does also seem slightly anomalous in some cases, because a tax-paying body such as a private sector contractor will benefit from tax relief on its contributions to the Fund but will not have to pay a tax charge on any exit credit it receives. There is therefore an extra reason for the announcement to be welcomed by some LGPS employers who may benefit from the new exit credits provisions.

£95K EXIT PAYMENT CAP – The issue of exit payment caps in the public sector continues to drag on….The proposed £95k exit payment cap would apply to redundancy payments that are paid to the employee and also the additional cost to the employer of early payment of retirement benefits. Quantifying the value of the enhanced pension is presenting MHCLG with the biggest headache as there is currently no standardised way of doing this across all LGPS funds. Currently MHCLG are gathering information from across the sector to examine the various methods in use, with a view to potentially recommending a standardised process in future.

DATA QUALITY – This continues to be a hot topic and one that is receiving lots of attention from The Pensions Regulator (TPR) under its new public sector governance remit. This is the first year that funds will have to record their common and scheme specific data scores on the annual scheme return. In addition TPR has confirmed that it will be "visiting" 23 LGPS funds with a view to assessing the data quality, seeking improvements in the quality of data available. Of course scheme data also relies on the level of engagement from the employers and we are currently using our data quality tool to work with our funds to facilitate better employer engagement in this regard.

EQUITY RISK MANAGEMENT – Most Funds have enjoyed a material increase in their funding levels in recent years, primarily as a result of strong equity returns versus their liabilities. We all know that equities are volatile and with equities being such a significant contribution to expected return (and risk) for LGPS Funds a reversal in markets from their record highs could undo all the recent gains very quickly. Managing equity risk is therefore important to help lock in recent funding level gains, improve stability and, perhaps most importantly, reduce the risk of unexpected increases in contribution rates. However, in managing this risk funds also need to make sure they continue to capture enough upside to keep the cost of future service benefits affordable.

Mercer has been working with a number of Funds to put in place equity protection strategies to help lock in these recent gains while allowing access to sufficient equity upside to keep accrual costs affordable. As well as the traditional methods, we have been pioneering some dynamic rolling strategies that adapt to market conditions to offer a potentially improved balance between risk reduction and access to upside on a longer term basis to help control employer contribution rates well into the future.

INTEREST RATES – The Bank of England recently raised interest rates by 0.25% to 0.75%. This should have come as good news to Fund's who value their liabilities on a gilt based discount rate. However, a combination of the markets anticipation of the rise and the dovish language used by the MPC resulted in a fall in long term yields and an increase in liabilities for those Funds who might have been expecting to make gains in funding levels and expected returns on assets. The move just goes to show the uncertainty and different moving parts (particularly trader sentiment) in market pricing and the need to think about the risks such changes have on Funds.

REMINDERS

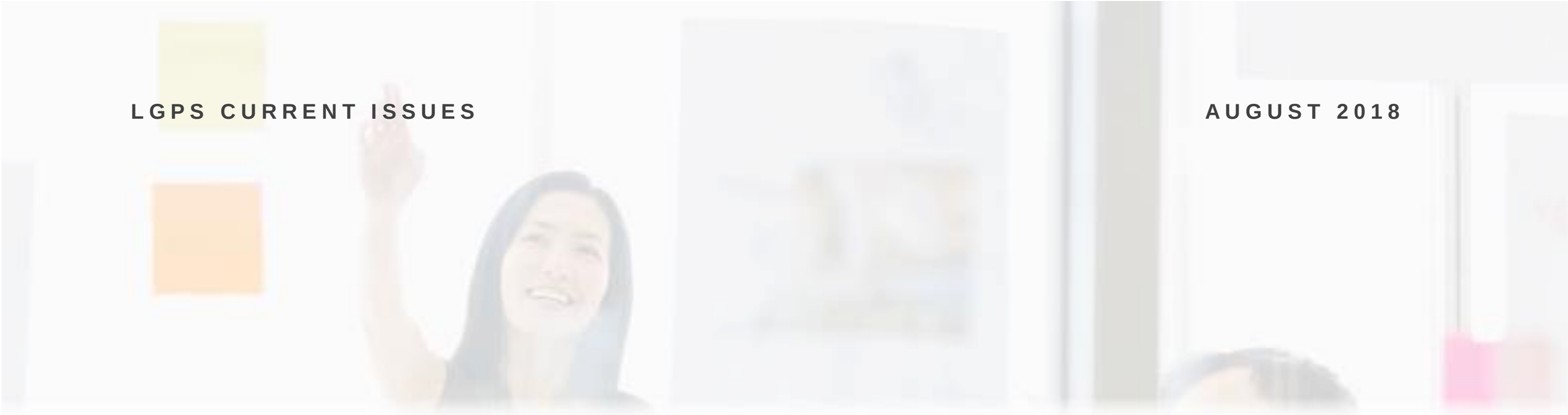
LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018 – Our previous Newsalert summarised the LGPS Regulations that came into force on 14 May 2018, (noting that some of the Regulations have effect from 1 April 2014). As a reminder, it is now important for Funds to review their policies to ensure that they allow sufficiently for the introduction of exit credits, as well as communicate the changes to employers to alert them to the changes and highlight the importance of reviewing any commercial agreements in light of the new Regulations.

LGPS AVC CLUB – Many Funds have already expressed their interest in our new **"LGPS AVC Club"**, an independent monitoring and governance service set up by Mercer's specialist AVC team. The club is open to all LGPS funds who wish to reduce the cost and governance burden associated with these arrangements. Participation in this new club will avoid the unnecessary duplication of costs of undertaking AVC reviews and will therefore entitle member Funds to a material discount for our AVC monitoring reports due to the greater efficiencies coming through. For more information about joining the club, please contact david.r.barker@mercer.com (0207 178 3392) or your usual Mercer consultant.

OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

SECTION 13 - The GAD is expected is expected to publish its formal Section 13 report on the 2016 LGPS valuations in September. There is currently an ongoing dialogue on content between actuaries, GAD and some Funds who are mentioned in the report. It remains to be seen how many of these comments are taken on board by GAD when the final report is published.

TIER 3 EMPLOYERS – As mentioned in our previous Newsalert, having gathered the results of the surveys, Aon confirmed at the Scheme Advisory Board meeting in February that they are ready to analyse this and the interview data and provided an update on progress. A draft report was expected at the 27 June 2018 meeting for consideration by the Board. More information will be provided as it becomes available and further details on the project can be found here.



DATES TO REMEMBER

DATE	ISSUE	THE LATEST
31 August 2018	Benefit statements	Deadline for Benefits Statements
6 October 2018	Savings statements	Deadline for Pensions Saving Statements
1 January 2019	HMRC brief on VAT and treatment of pension fund management services provided by insurance companies.	Date by which, where an insurance company provides pension fund management and administration services, only the services for schemes classed as "special investment funds" will continue to be treated as VAT exempt.
1 January 2019	Plan Amendment, Curtailment or Settlement (IAS19)	Date after which member states must adopt the new EU directive covering occupational pensions.
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of this month.
6 April 2019	Auto-enrolment	The minimum contribution rates for auto-enrolment will rise to 3% employer, 5% employee on this date.
2018	Tier 3 Employers	Outcome of the Tier 3 employers review
2018	Academies	Outcome of the academies review
2018/2019	Regulator powers	Consultation on changes to the Pensions Regulator's Funding Code of Practice and strengthening its scheme funding and anti-avoidance powers has now started.
2019	Pensions Dashboard	These are expected to go live some time in 2019

MEET SOME OF THE TEAM

THINGS YOU MAYBE DIDN'T KNOW

Name: Peter Gent
Role: Senior Investment Consultant and Actuary
Joined Mercer: November 2017
Place of Birth: Wirral (it's not Liverpool)
Favourite Film: About Schmidt – Jack Nicholson playing an actuary – mind blown
Dream Holiday Destination: New Zealand – rugby and mountains – what's not to like?
Favourite take away – Sushi – 10+ years living in London and Surrey has changed me
Best thing you did this summer so far: Bought a fan and a paddling pool

Name: Ciaran Shanahan
Role: Wealth Analyst
Joined Mercer: September 2015 (it has gone fast!!)
Place of Birth: Northampton
Favourite Film: Law Abiding Citizen and as a child Toy Story
Dream Holiday Destination: Caribbean (I am going in December)
Favourite take away – Salt and Pepper Chicken, Salt and Pepper Chips, Fried Rice and Curry Sauce
Best thing you did this summer so far: Built a wardrobe (don't class myself as very DIY handy)

Name: Traci Bennett
Role: Wealth Analyst
Joined Mercer: July 2017
Place of Birth: Nova Scotia, Canada
Favourite Film: 10 Things I Hate About You and National Lampoons Christmas Vacation
Dream Holiday Destination: Ontario or Halifax, so I can see my family.
Favourite take away – Shake Shack - a wrap, chips and a milkshake
Best thing you did this summer so far: Bought a new house!

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Administration and Communications Update
Report Author	Principal Pensions Officer

EXECUTIVE SUMMARY

An update is on each quarterly Committee agenda and includes a number of administration and communications related items for information or discussion. The items for this quarter are:

(a) Business Plan 2018/19 update – it is proposed some tasks are postponed. All annual benefit statements have been issued other than those held back due to the issue covered by the Part 2 report.

(b) Current Developments and News – this includes updates relating to two national changes that could impact benefits that have already been processed, resulting in additional work revisiting those benefits. It also highlights the Pension Regulator's expectations in relation to data quality scoring.

(c) Administration and communications related policy/strategy implementation – the team are continuing to struggle to meet the Fund's Key Performance Indicators and outstanding work tasks are increasing for a number of reasons such as increased volumes and new legislation. On a positive note, the uptake of Member Self Service has increased by over 1,000 members since the last meeting with over 30% of active members now registered to use this on-line facility.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee agree that additional payroll functionality which was intended to commence quarter 1 of 2018/19 is extended to quarter 3 of 2018/19.
3	That the Committee agree that the Trivial Commutation project which was intended to commence in quarter 2 of 2018/19 is delayed until quarter 1 of 2019/20.

REPORT DETAILS

<table>
<tr><th>1.00</th><th>ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS</th></tr>
<tr><td>

1.01</td><td>Business Plan 2018/19 Update

Progress against the business plan items for quarter two of this year is generally on track as illustrated in Appendix 1. Key items to note relating to this quarter's work are as follows:
A1 – Additional payroll functionality – This functionality, which allows the CPF Administration Team to process its own lump sum payments, has now been implemented, however the work required to start using the functionality has not yet been completed. Due to the requirements to issue Annual Benefit Statements to active members by the 31 August, it is proposed that this project should be extended to quarter 3 2018/19.
A2 – Annual Benefit Statements are to be issued to members by their chosen delivery method by 31 August. A bulk email will be sent to all registered MSS members week commencing 27 August. However, as explained in the separate Part 2 report, there are approximately 140 deferred records and 800 active records where their statements will be delayed. Pension Saving Statements (relating to Annual Allowance) will be produced and published to MSS with a bulk email sent to relevant members.
A4 & A5 Expanded Backlog and Aggregation Project – Mercer have commenced work on these areas in order to remove the historical backlogs that exist. A separate update report is provided from Mercer in Appendix 2.
A9 – Trivial Commutation Exercise – It is proposed that this project is postponed until quarter 1 of 2019/20. Due to current workloads the team are unable to commit to dealing with the expected increased work demands that the project will generate.
A16 – Other Expected National Changes - As you can see from this report, there have been a number of new developments that have been worked on.</td></tr>
<tr><td>1.02</td><td>The Committee is asked to note the contents of the business plan update and agree to the proposed changes in timescales for A1 and A9.</td></tr>
<tr><td></td><td>Current Developments and News</td></tr>
<tr><td>1.03</td><td>A separate LGPS Update report has been provided by Mercer and included with the Committee Papers. In general we are aware of the points highlighted in the report and a number of these are specifically referred to in the Business Plan for 2018/19.
Our Admission Agreements have been reviewed by Osborne Clarke, legal advisers, to ensure compliance with the 2018 amendment regulations.
Following the regulation change which allows all deferred members to access their benefits from age 55 (reduced) irrespective of when they left the scheme, we have experienced an increase in both enquiries and payments of benefits.</td></tr>
</table>

	• The Pensions Regulator has confirmed that data quality is to be measured and common and scheme specific data scores are to be reported within their autumn Scheme Return. Clwyd Pension Fund has received initial analysis from the software provider regarding the data held and an action plan is currently being prepared. The Committee will be provided with further information at the November Committee.
1.04	*Elmes V Essex* A recent High Court judgement removed the requirement for members of the Local Government Pension Scheme (LGPS) to nominate their cohabiting partner to receive a survivor's pension in the event of their death. Before this ruling, a survivors' pension was only paid to a cohabiting partner (for members who died between 1 April 2008 and 31 March 2014), if the scheme member had completed a nomination form. This means that, subject to meeting certain criteria, some cohabiting partners may now be eligible for a survivors' pension if their partner died between 1 April 2008 and 31 March 2014. This ruling now means that Clwyd Pension Fund are required to investigate any pensions that may be due to surviving partners of deceased members during the above dates. It will require a communication exercise, verification of claims and payment of arrears to eligible partners. Investigations have identified that we have 180 cases that could be impacted by this judgement and we will be writing to them all explaining the change and asking them for information so we can determine whether they are affected. Even if not many additional pensions are put in payment, this is a sizeable exercise that will impact the ongoing work of the Administration Team.
1.05	*Underpin* Further changes to the regulations in May 2018 relate to members who have transferred benefits into Clwyd Pension Fund from a previous Public Sector Fund. The changes introduce a further protection to those members who were within 10 years of their normal retirement date at April 2012. For Clwyd Pension Fund this means revisiting all Public Sector transfers from April 2014. The change requires us to carry out an "underpin" check against their previous Public Sector pay to ensure that any transferred membership complies with this regulation and any underpayments are calculated. Investigations have identified that we have 170 cases that will need reviewed as a result of this change. If they are impacted, this will result in an increase to their pension benefits and it is possible that some of these members have already left the scheme. Once again, this is a large project that will impact the Administration Team's resources. In addition, we will be updating our current processes and communications to incorporate this additional requirement for ongoing cases.

	Policy and Strategy Implementation and Monitoring
1.06	*Administration Strategy* The latest monitoring information in relation to administration is outlined below: • Day to day tasks – Appendix 3 provides the analysis of the numbers of tasks received and completed on a monthly basis since April 2015 as well as how this is split in relation to our three unitary authorities and all other employers. There continues to be an increase in the outstanding number of tasks, due to ongoing increases in workloads, projects such as the implementation of iConnect, year-end returns and increased enquiries and calculations for those deferred members who are now able to access benefits from age 55. • Key performance indicators – Appendix 4 shows our performance against the key performance indicators that are measured on a monthly basis up to July 2018. The graphs continue to illustrate that we are not managing to meet most of the agreed standards. The increased number of retirements in July also meant less resource was available to deal with quotations. We hope to see some improvements in these areas in the coming months as we are currently recruiting to the level of staff that carry out these tasks. The increase in numbers of leavers completed is due to a large focus on catching up with these notifications, albeit this has resulted in a reduction in numbers of new starts completed during this month. Most areas are impacted during August by staff being on holiday. This is the peak period for annual leave and several members of staff have been off during June and July which has had an impact on the results. In addition, The Principal Officers have been less able to assist with case completion due to undertaking other additional duties as a result of the long term and continuing absence of the Pensions Administration Manager which has meant they are more involved in other matters including those highlighted in paragraphs 1.06 and 1.07, and the matter covered by the Part 2 report. The recruitment of two Lead Officers and a Pension Officer, which is currently being undertaken by the Principal Officers, will alleviate the requirement to assist with these cases going forward, albeit there will be some lead in time due to training and backfilling of these posts.
1.07	As can be seen by the information presented there continues to be large amounts of work coming into the Section and also a large number of outstanding tasks, meaning we are unable to meet all our KPIs. A workforce review was carried out and as mentioned above (1.06) recruitment, as agreed previously under urgent delegation, is now underway with a potential for new staff to commence October 2018. A business case has been put together for further additional resource to enable the Administration Section to deliver the services in line with Fund's objectives including meeting the KPIs. This is currently with senior managers who are considering it. Furthermore, as mentioned previously Mercer are continuing to assist with the aggregation work and other projects that can be outsourced.
1.08	*Internal dispute resolution procedures* Below is a summary of the internal dispute resolution cases that have

arrived this and last year. Of the appeals received against the employers at Stage One in the current year, all are based on non-payment of deferred benefits and the one against the Administering Authority is due to the overstated estimate of benefits due to incorrectly recorded service.

The one against the employer that was rejected in 2017/18 progressed to Stage Two at which point additional evidence became available that the employer had not seen and was therefore referred back to the employer for review. The other Stage Two case that had been through Stage One in 2017/18 was also upheld as additional evidence was forthcoming.

	2018/19			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	3	1		2
Stage 1 - Against Administering Authority	1	1		
Stage 2 - Against Employers	3	2		1
Stage 2 - Against Administering Authority				

	2017/18			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	13	2	9	2
Stage 1 - Against Administering Authority	1		1	
Stage 2 - Against Employers	3	2	1	
Stage 2 - Against Administering Authority	1		1	

The appeal against the Administering Authority at Stage Two in 2017/18 has been progressed to the Pensions Ombudsman. The Pensions Ombudsman made their determination in respect of this case and recommended a compensation payment of £500 which was made to the member in July 2018. This case relates to a retiring member who also had AVCs. Benefits which were paid approximately 2 months after the scheme member's actual retirement date. The Pensions Ombudsman found that we could have done more to explain processes and manage the scheme member's expectations, including contacting the member in advance of retirement and providing more timely responses to her queries.

1.09 *Communications Strategy*

The Communication Officer has provided the following services since the last update (i.e. relating to the period from 1 June 2018 to 20 August 2018):

- TUPE presentation to NEWydd and Aura - Following feedback from employers, further presentations are to be organised in September by both employers for all staff in a total of six locations. The presentations will take place over three days and will focus on the different options for aggregation or combining benefits following a TUPE transfer.
- Job transfer presentation to Theatr Clwyd staff following reorganisation.

1.10 The following communications have been distributed during this period:

- Letters to all members not on MSS and those who elected for paper correspondence to outline LGPS Amendment Regulations 2018 (see Appendix 5)
- Email sent outlining potential future transfers of staff to external bodies
- Email to Coleg Cambria, Glyndwr University and multiple small employers providing content to email to staff to encourage MSS

	membership and to ask for potential avenues to assist with its promotion • Provided employers with information regarding Employer Strain Cost requests, providing details of GDPR restrictions and a template to be used by employers when requesting figures (e.g. redundancy quotations) • Organised meeting with Flintshire County Council Streetscene department for 4th & 6th September. Awaiting confirmation of date for meeting with Head Teachers to encourage MSS take up within their schools. • Letter to Employers regarding LGPS Amendment Regulations 2018.
1.11	The updated information concerning Member Self Service is shown in Appendix 6 and this illustrates enrolment to Member Self Service continues to grow. It has increased by over 1,000 members since the last meeting with over 30% of active members now registered to use this on-line facility. Much of the recent increase has been due to the ongoing promotion of Member Self Service, including as part of the update on the amendment regulations as shown in Appendix 5.
1.12	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. The only delegation that has been used since the last meeting is in relation to the matter outlined in the Part 2 Committee report where the Principals were agreed by the Chairman and the Chief Finance Manager. Due to the confidential nature of this matter, no further information is contained here.

2.00	**RESOURCE IMPLICATIONS**
2.01	The Administration Section continues to be under pressure as a result of the ongoing increases in workload many of which stem from the introduction of the new scheme in 2014. As mentioned previously a full business case for additional resource has been put together for consideration.

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 7 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations, and

	• Poorly trained or insufficient staff numbers which could lead to us being unable to meet our legal or performance expectations – this has been updated to include further action to review the existing staffing establishment and develop a business case for further staff.
4.02	Since the last update, the following risks have been updated: • Risk number 1 – unable to meet legal and performance expectations due to staff issues e.g. poorly trained or insufficient staff. The impact has been changed from marginal to critical, and likelihood changed from significant to very high. This is due to the ongoing absence of the Pensions Administration Manager, and the ongoing increases in work load resulting in insufficient resources. • Risk number 2 – unable to meet legal and performance expectations due to employer issues e.g. not understanding their responsibilities, poor data transmission and insufficient resources. Although the impact and likelihood scores have remained unchanged, further actions have been added in relation to checking of data and training of employers in relation to the subject referred to in the Part 2 report. • Risk number 3 – unable to meet legal and performance expectations due to external factors e.g. big changes in employer or scheme member numbers or unexpected work. The impact has been changed from marginal to critical and the likelihood changed from low to significant. This is due to unexpected work due to external factors, including the issue highlighted in the Part 2 report, and the two new areas of work highlighted in paragraphs 1.04 and 1.05.

5.00	**APPENDICES**
5.01	Appendix 1 – Business plan update 2018/19 Appendix 2 – Backlog and aggregation update from Mercer Appendix 3 - Analysis of cases received and completed Appendix 4 – Key Performance Indicators Appendix 5 – Scheme member amendment regulations communication Appendix 6 – Member Self Service update Appendix 7 – Risk register update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2018/19 to 2020/21 **Contact Officer:** Sandra Beales, Principal Pensions Officer **Telephone:** 01352 702876 **E-mail:** sandra.beales@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – 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 (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. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (h) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

Business Plan 2018/19 to 2020/21 – Q1 Update
Administration and Communications

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Administration (including Communications) Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
A1	Additional Payroll Functionality	x		xM			
A2	Move to Electronic Annual Benefit Statements	x	x				
A3	iConnect	x	x	x	x	x	
A4	Expanded Backlog to 31 March 2014	x	x	x	x		
A5	Aggregation Project	x	x	x	x	x	
A6	Electronic and Centralised internal procedures	x	x	x	x	x	
A7	Data Improvement Plan Development	x	x	x	x		
A8	GMP Reconciliation	x	x	x	x	x	
A9	Trivial Commutation	x	x	x	x	xM	
A16	Other Expected National Changes (dates unknown)						

Administration and Communication Task Descriptions

A1 – Additional Pensioner Payroll Functionality

What is it?

Currently lump sum payments (i.e. retirement lump sums, transfer payments and death grants) are made via the Council's main financial system. The Altair pensioner payroll system which is used by the Pensions Administration Team has the functionality to allow these payments to be made through it. This reduces the reliance on systems outside of the control of the pension administration team and it would also result in quicker payments to scheme members. .

Timescales and Stages

Testing and implementation	2018/19 Q1

Resource and Budget Implications

All internal costs are to be met from the existing budget. External costs amount to £3,800 one off cost.

A2 – Move to Electronic Annual Benefit Statements

What is it?

Following the implementation of Member Self Service, the move from paper based Annual Benefit Statements to Electronic is planned for the 2018 statements. This includes other annual electronic communications such as pensions increase letters for pensioners.

Timescales and Stages

Deferred Benefit Statements	2018/19 Q1
Active Benefit Statements	2018/19 Q2

Resource and Budget Implications

All internal costs are to be met from the existing budget. Printing and mail costs will reduce in 2018/19 and future years.

A3 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). It involves employers uploading data directly into iConnect from their payroll systems. iConnect is to be rolled out to all employers of the Fund on a phased basis. For each employer being transitioned onto iConnect, the first stage is ensuring that the correct member records are held on the Altair administration system before entering into testing and live roll out of iConnect. This will be done on a phased basis by employer. The project commenced in 2017/18 and Denbighshire County Council, Bodelwyddan Castle Trust, Prestatyn Town Council, Careers Wales, Cartref NI Ltd Flintshire County Council, Aura and Newydd have been successfully implemented.

Timescales and Stages

Other employers	2018/19 Q2/Q3/Q4
WCBC	2019/20

Resource and Budget Implications

There will be a time and resource commitment required from employers. All internal costs are being met from existing budget. The system cost is also incorporated into the budget. The roll out of iConnect, particularly to WCBC will involve significant internal resources which may impact on other day to day work.

A4 – Expanded Backlog to 31 March 2014 (Mercers)

What is it?

A backlog of tasks prior to 31 March 2013 has been expanded to 31 March 2014 and approximately 350 additional member cases have been identified for completion by Mercers.

Timescales and Stages

Clear cases externally and eliminate backlog	2018/19

Resource and Budget Implications

Resource provided by Mercer. The costs in relation to this exercise have been included in the budget.

A5 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 3,500 cases (as at 30 September 2017) where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers are still developing calculations to accommodate these changes. The recent recruitment and creation of the Aggregation Team has facilitated procedures to be put in place to address this backlog and maintain these cases as "business as usual" going forward. Whilst still in the planning stages it is expected that approximately 1700 of these cases may be outsourced to Mercers for the initial stage of the process to be actioned and returned to the Aggregation Team for completion.

Timescales and Stages

This is a high priority project and will be completed as soon as possible.

Ongoing progress with data cleansing	2018/19
Clear cases and eliminate backlog	2018/19 & 2019/20

Resource and Budget Implications

An additional £13,683 for changing Pensions Assistants to Pensions Officers is included within the budget (previously agreed in 2017/18. There will also be further costs relating to the work which may be outsourced to Mercers and an estimated cost for 2018/19 has been included in the budget figures.

A6 – Electronic and Centralised internal procedures

What is it?

This relates to the development of an on-line procedures manual for use by the Pensions Administration staff. This will amalgamate, expand and update current procedure documents, and ensure consistency, easy access and efficient working as well as providing a useful training tool. These updated procedures will also be linked into staff competencies and training plans.

Timescales and Stages

This is a lower priority project and will be completed as and when resource allows.

Develop, collate, update and maintain	2018/19 & 2019/20

Resource and Budget Implications

To be carried out by the full Pensions Administration team. All internal costs are to be met from the existing budget.

A7 – Data Improvement Plan Development

What is it?

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they expected to be adopted by private sector pension schemes to consider data. This referred to checks being expected on 'common' data (e.g. Name, Address, Date of Birth, National Insurance number). TPR also outlined 'conditional' data checks but did not set prescriptive targets as the data is deemed to be scheme-specific (e.g. Member data – divorce, transfers in, AVCs, deferred information). The guidance did target pension scheme trustees to ensure that 'reasonable endeavours' were undertaken to provide evidence of assessment and measurement, together with an action plan to meet the scheme specific targets (i.e. a data improvement plan). From 2018/19, TPR is expecting all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data.

To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood offers a Data Quality service. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities) but this is unlikely to be available until later in 2018/19.

In addition to measuring and capturing the results of the common and scheme specific data reviews, the Fund will develop a data improvement plan to capture any other elements of data that they consider to be inaccurate and ongoing plans.

Timescales and Stages

Run reports and ascertain data quality	2018/19 Q1

Research and correct any data anomalies where practical*	2018/19 Q1 – Q4
Review scheme specific data checks based on national LGPS requirements	2018/19 Q3/4 (to be confirmed)

*Where not practical, a timescale will be included in the Fund's data improvement plan.

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are provided at an annual cost of £5,000 (assuming this is taken over at least three years).

A8– GMP Reconciliation

What is it?

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. All GMP's and national insurance information must be reconciled by March 2019, the date the HMRC will cease to provide their services.

Initial work has identified that there was significant discrepancies between the two sets of data, and a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund must also ensure the accuracy of national insurance information held for active members. All GMP's and national insurance information must be reconciled by December 2018, the date the HMRC will cease to provide their services. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation	2018/19
Reconciliation of national insurance information (Active Members)	2018/19
Benefit correction and system updates	2018/19 & 2019/20

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Equiniti who are carrying out the work. This is likely to impact internal resources in relation to any adjustments to be made to current pension amounts (i.e. under or overpayments) but the impact of this is not yet known.

A9 - Trivial Commutation

What is it?

This is where a member who is entitled to a small pension can elect to give up the entirety of that pension and instead receive their benefit as a single lump sum payment. A project will be carried out to identify any pensioners and dependants who may be eligible for trivial commutation and to offer it to them. This will reduce the administrative burden on the Fund paying a large number of very small pensions over a number of years as well as providing greater clarity from a funding perspective. The government has a limit for members to trivially commute their pension in relation to their single pension (£10,000 value – called a "small pot") and total benefits (£30,000 – called "trivial commutation"). As well as reducing the number of pensioner payments that require ongoing payment this could also have a positive impact on the funding level as it removes the liabilities for these members. It will also be welcomed by a number of pensioners who would prefer a one-off lump sum payment rather than ongoing smaller payments of little value.

Timescales and Stages

Timescales below are indicative and subject to prioritisation of other administration work streams.

Identify members eligible to commute under £10,000	2018/19
Communicate with eligible members and pay lump sums	2018/19
Identify members eligible to commute under £30,000:	2019/20
Communicate with eligible members and pay lump sums	2019/20

Resource and Budget Implications

The majority (if not all) of this work may be outsourced to Mercer or another external provider to assist with resourcing. The precise cost of this is as yet unknown but a contingency has been included for 2018/19 within the budget to cover potential costs. It will also require input by the Technical Team with some assistance from the Operational Team, with any such input being focussed on the later stages of the project. All internal costs are to be met by existing budget.

A16 - Other Expected National Changes

What is it?

There are a number of national changes that are expected in due course. Given the focus on Brexit, it is not expected that many, if any, changes will take place during 2018. Areas where change may be forthcoming in due course could include:

- Scheme Changes as a result of the Cost Management Process
- Changes in Exit Payments
- Indexation of GMP's for members reaching SPA from December 2018
- GMP equalisation
- Fair Deal
- LGPS amendment regulations in relation to drafting problems or other areas of improvement (e.g. ill health provisions and aggregation)
- Welsh income tax changes

Timescales and Stages
To be determined

Resource and Budget Implications
Any significant changes will be reported to PFC when more information becomes available.

Business Plan 2018/19 to 2020/21 – Q1 Update
Employer Liaison Team

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Employer Liaison Team Tasks

Ref	Key Action – Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
E1	Design financial reporting and recharge procedures	x	x				
E2	Data preparation for iConnect	x	x	x	x	x	

Employer Liaison Team Task Descriptions

E1 – Design financial reporting and recharge procedures
What is it?
Consider the staff time spent and tasks completed in order to break down charges to be applied to each employer.

Timescales and Stages

Develop charging structure and information	2018/19 Q1
Finalise first year end charges to be built into valuation recharge costs	2018/19 Q1/2

E2 – Data preparation for iConnect

What is it?

The supply (manually) of significant volumes of missing data, in order to match records between the employer's payroll system and the iConnect software in preparation for automatic monthly uploads going forward.

Timescales and Stages

Reviewing inconsistencies, working through spreadsheets (WCBC)	2018/19 Q1 to Q4
Continuous refining of mismatches going forward (WCBC)	2019/20 Q1/2

Mae'r dudalen hon yn wag yn bwrpasol

MERCER
MAKE TOMORROW, TODAY

CLWYD PENSION FUND
BACKLOG CLEARANCE AND AGGREGATION PROJECT
PROGRESS UPDATE - 3 AUGUST 2018

Set out below is the progress made on both projects to 3 August 2018. The key points at this stage are:

- We have been completing these cases in the priority order as agreed with the FCC administration team
- Almost 250 cases were completed in July. Our expectation is, now much of the IT issues have been resolved (and in the absence of any other unforeseen outages), this rate will be broadly maintained for the remainder of the project.
- We are still working with Wrexham CBC to gain full access to their systems (this had to be re-authorised following the expansion of the original project) – we expect this to be fully resolved in August
- Our current expectation of completion is October/November 2018. This is subject to variation given our wider discussions about bringing additional work into scope.

Listing name		Cases in scope		Cases completed		Query cases	Cases in WIP	Cases to be started	
Pre 2014 cases	**Original**	**Additional arising***	**Total**	*to 3 August 2018*		*with CPF*	*With Mercer*	*With Mercer*	
FCC1 queries	50	5	55	40	*73%*	3	2	10	*18%*
Original FCC	122	5	127	33	*26%*	2	18	74	*58%*
Pre 14 FCC	45	0	45	45	*100%*	0	0	0	*0%*
Original DCC	47	0	47	43	*91%*	4	0	0	*0%*
Pre14 DCC	66	0	66	53	*80%*	12	0	1	*2%*
Pre14 WXM	163	0	163	0	*0%*	0	20	143	*88%*
Totals	493	10	503	214	*43%*	21	40	228	*45%*

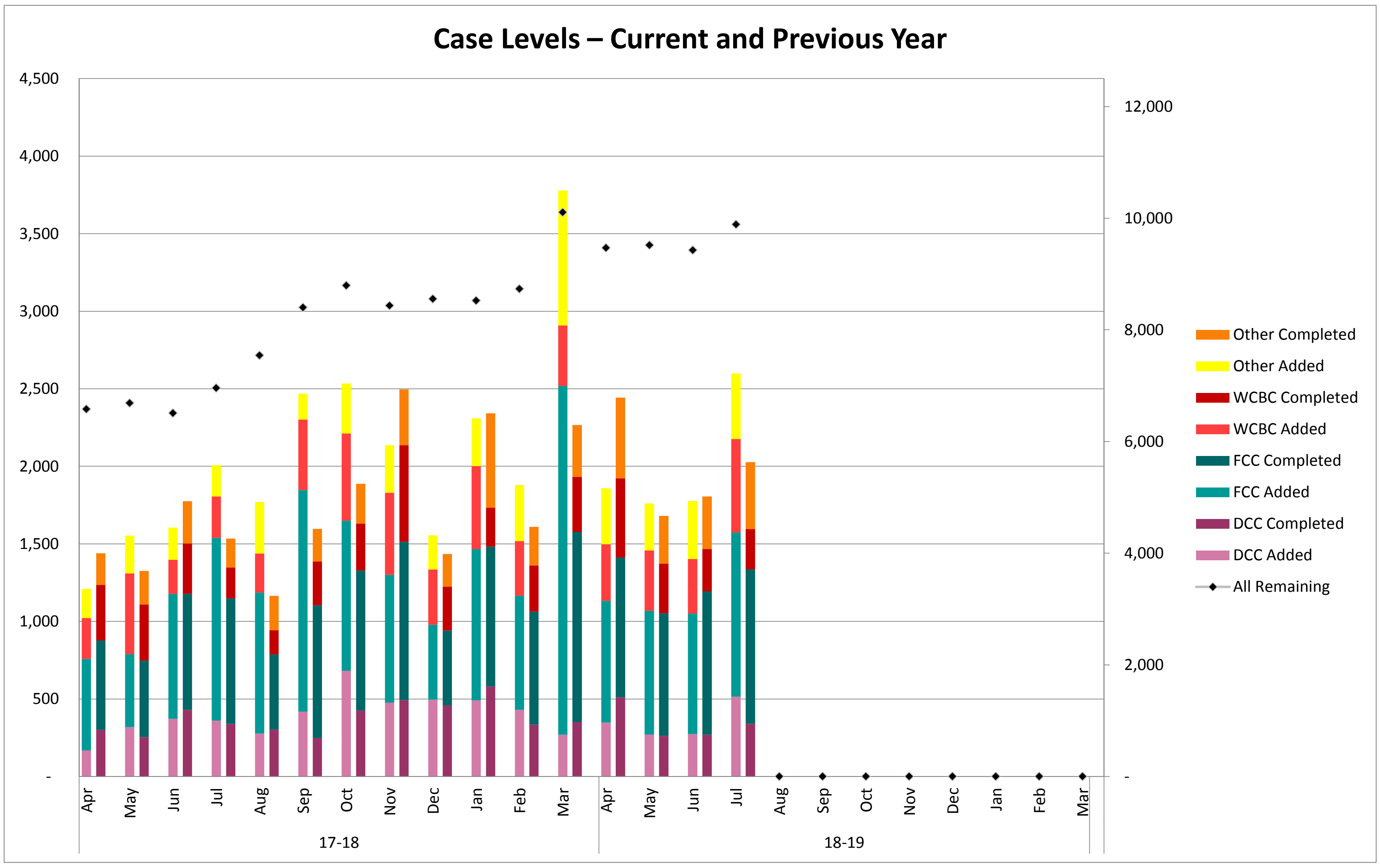
MARSH & McLENNAN COMPANIES

Post 2014 cases (aggregations)	Cases in scope			Cases completed		Query cases	Cases in WIP	Cases to be started	
	Original	Additional arising*	Total	*to 3 August 2018*		*with CPF*	*With Mercer*	*With Mercer*	
Post 14-Dec 16 FCC	500	4	504	131	*26%*	6	25	342	*68%*
Post 14-Dec 16 DCC	136	0	136	22	*16%*	5	88	21	*15%*
Post 14-Dec 16 WXM	292	0	292	0	*0%*	0	20	272	*93%*
Totals	928	4	932	153	*16%*	11	133	635	*68%*
Grand total across both projects	1421	14	1435	367	*26%*	32	173	863	*60%*

Notes:

- FCC – Flintshire County Council cases
- DCC – Denbighshire County Council cases
- WXM – Wrexham County Borough Council cases
- **Additional cases arising* are where the original cases have had to be expanded, owing to the specific circumstances of the original case (as agreed with the FCC administration team)
- The above naming convention of the listings is consistent with the tracking spreadsheets as defined by the FCC administration team

Mercer Limited
August 2018


Case Levels – Current and Previous Year
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
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18-19
Other Completed
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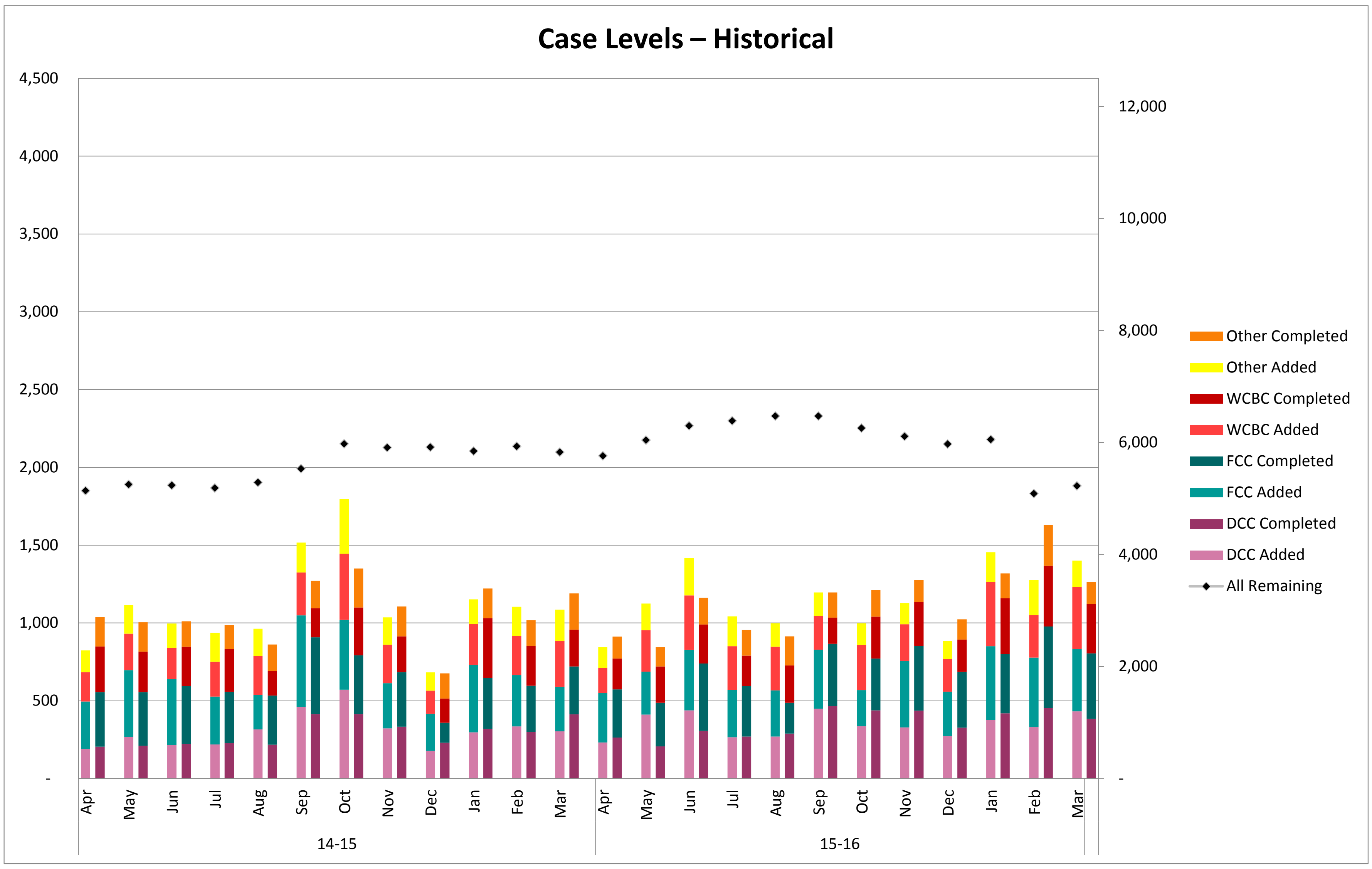
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining


Case Levels – Historical
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4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
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8,000
6,000
4,000
2,000
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
14-15
15-16
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining

Mae'r dudalen hon yn wag yn bwrpasol

Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover seven areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members)
- The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

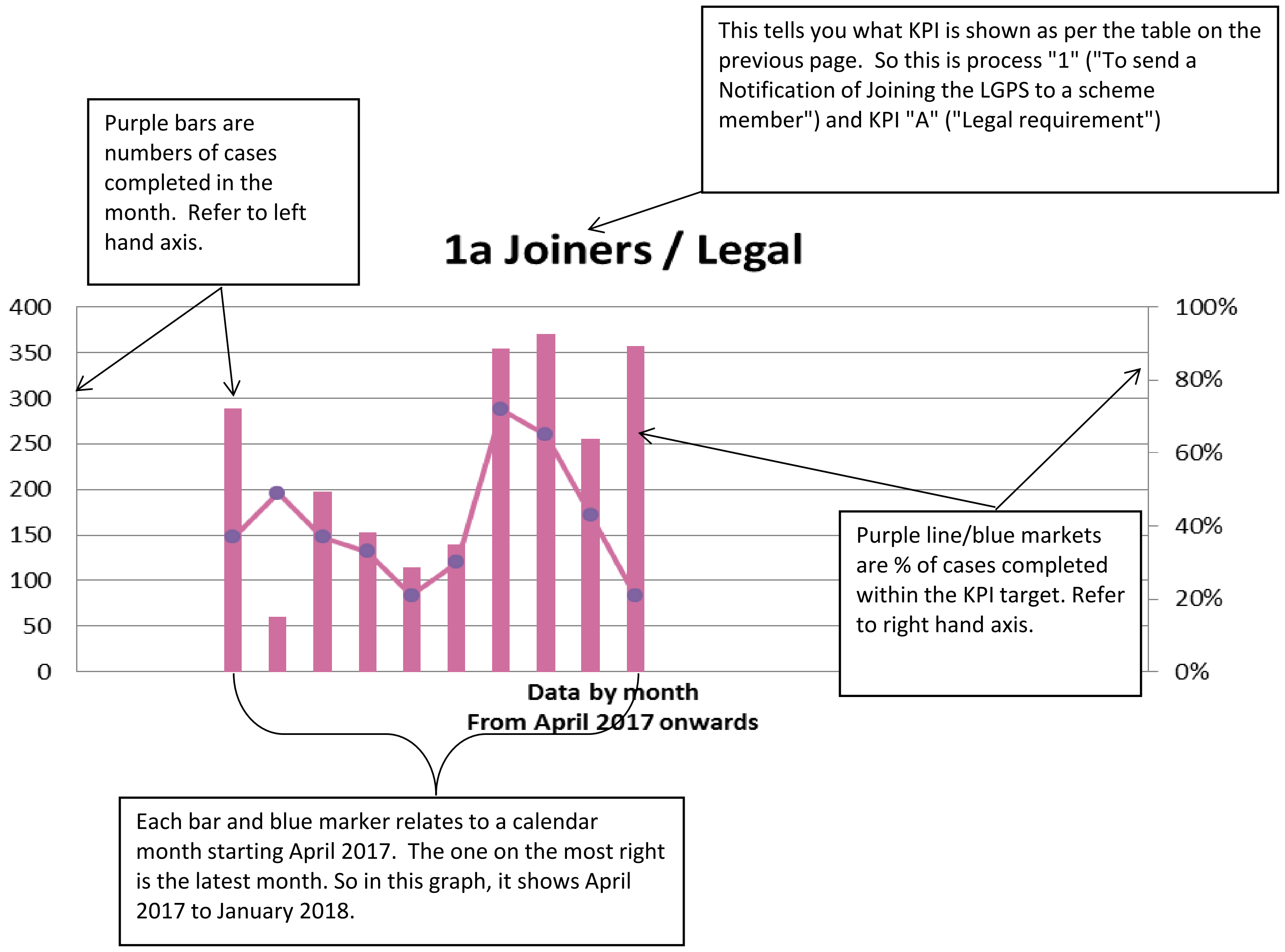
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	46 working days from date of joining (ie 2 months)	15 working days from receipt of all information
2	To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	23 working days from date of retirement	10 working days from receipt of all information
6	Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information

Interpretation of graphs

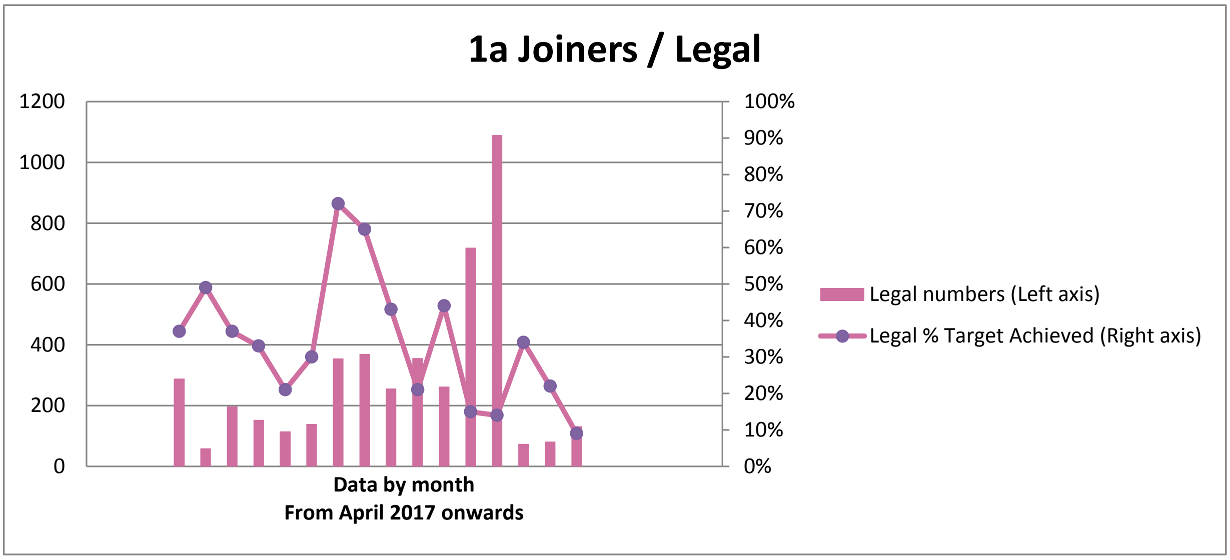
One graph has been provided for each KPI in the table above. Each graph shows month by month:

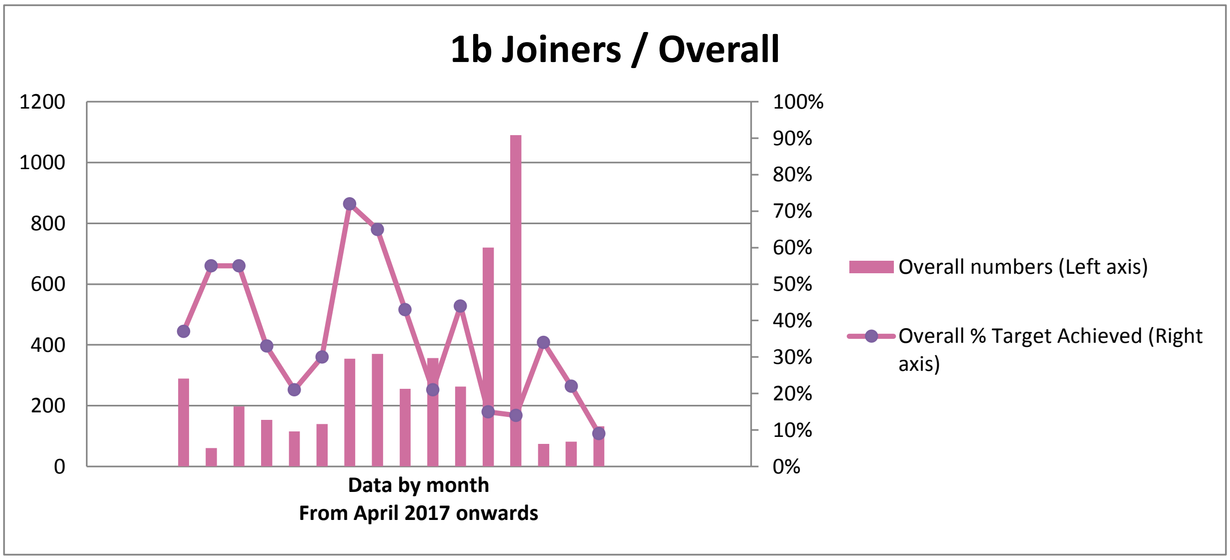
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

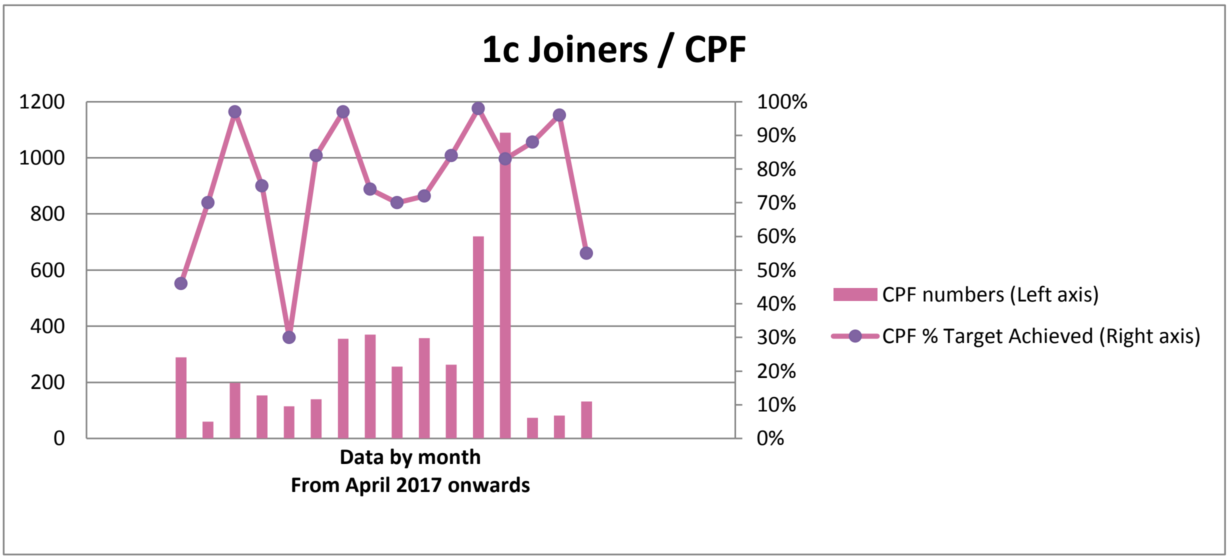
This is illustrated further below.



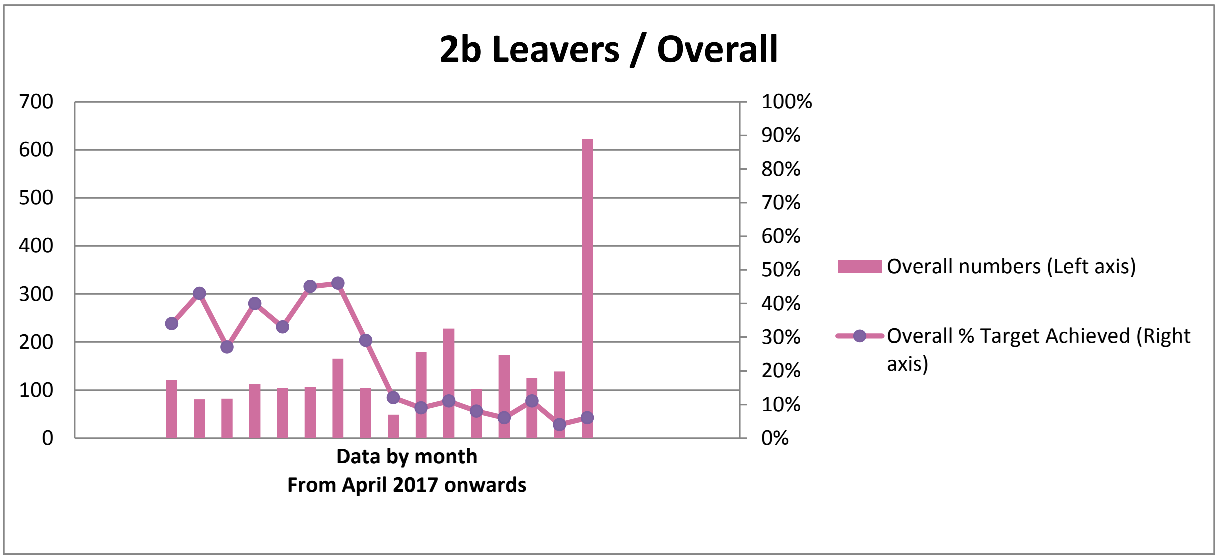
Key Performance Indicators - relating to 31 August 2018

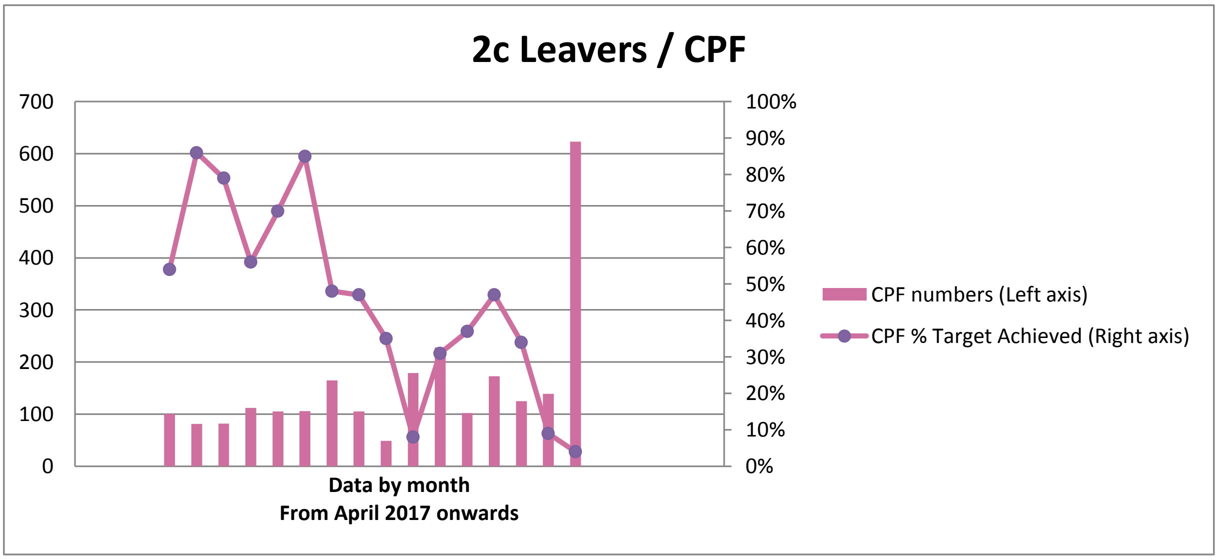




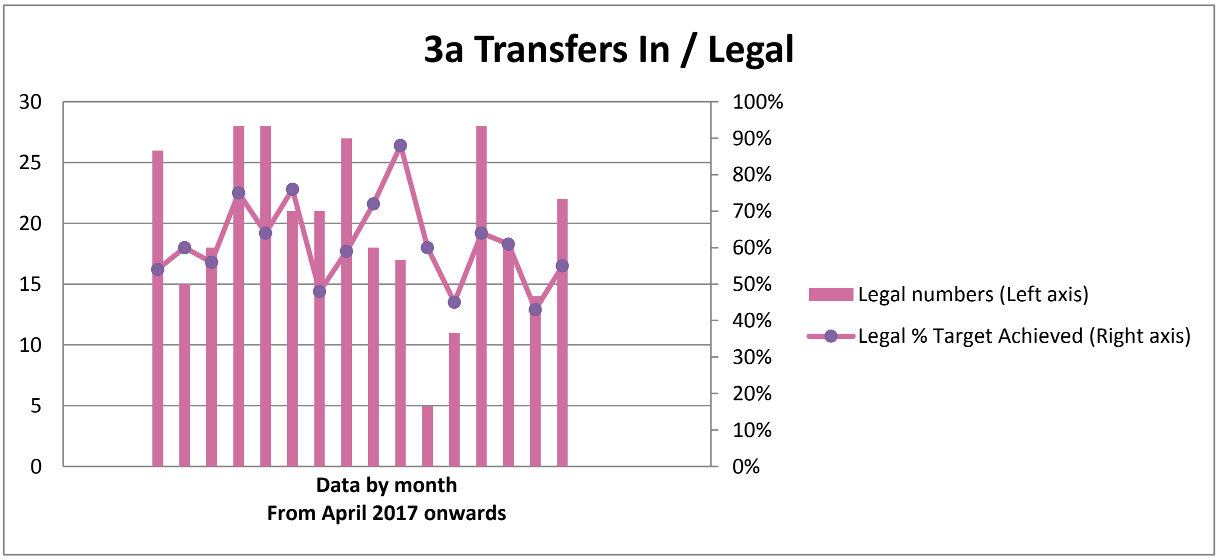


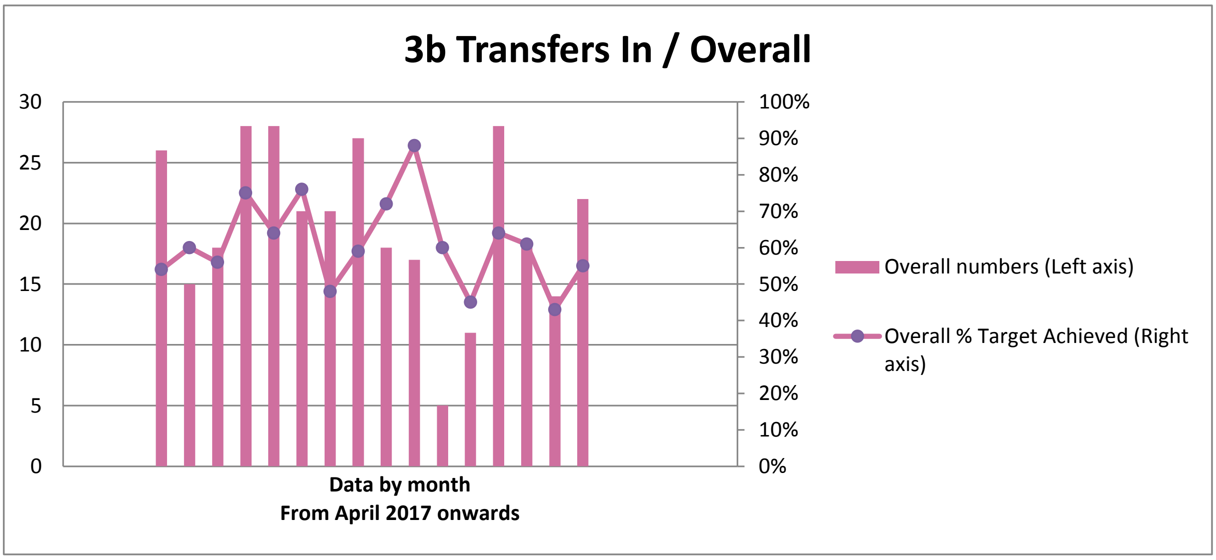
Key Performance Indicators - relating to 31 August 2018

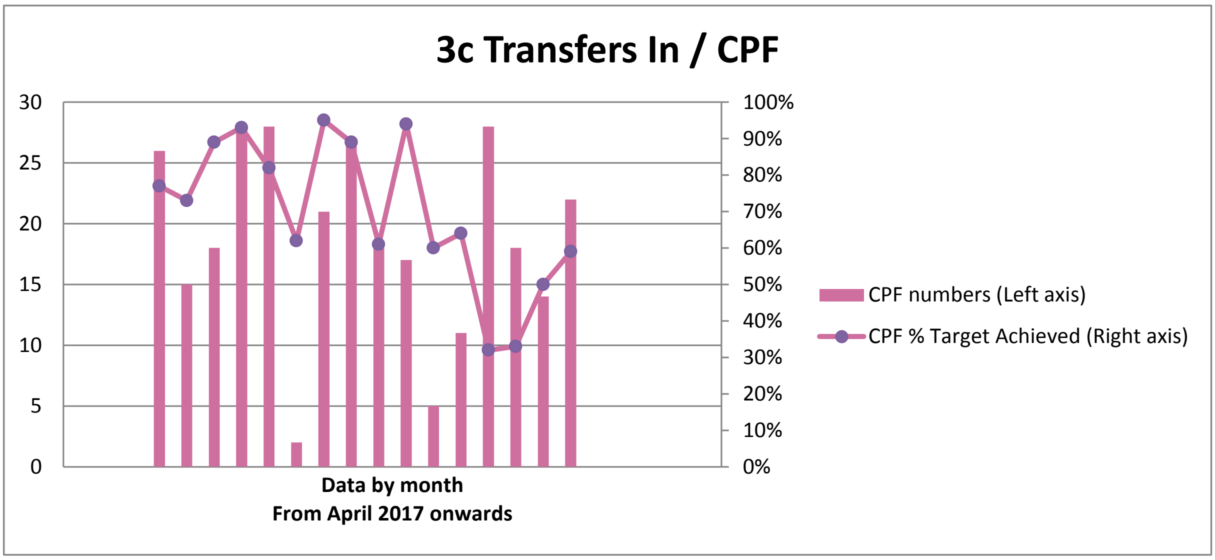




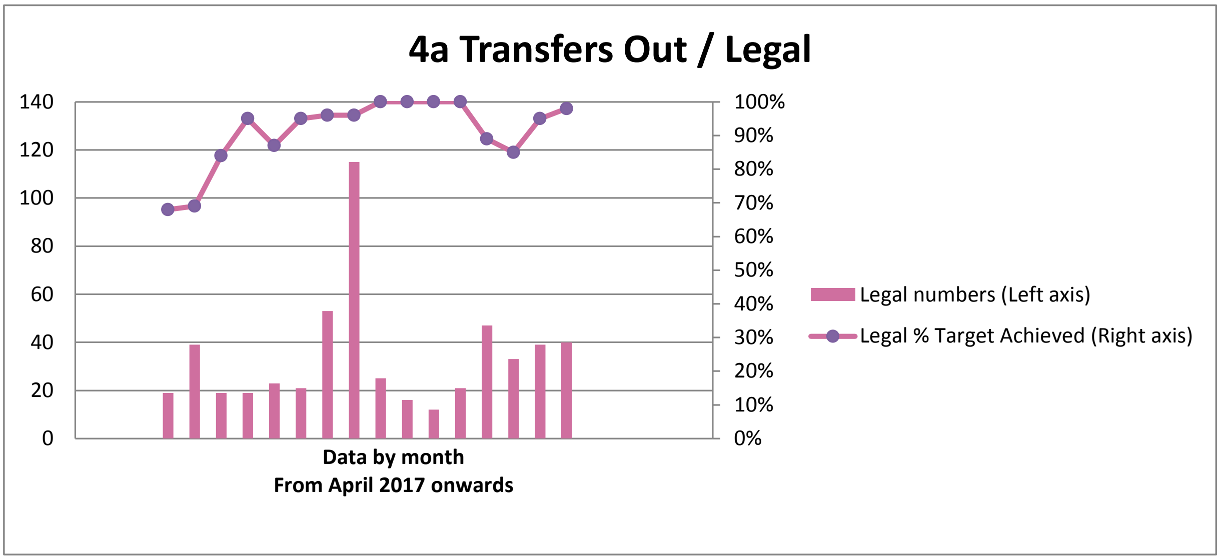
Key Performance Indicators - relating to 31 August 2018

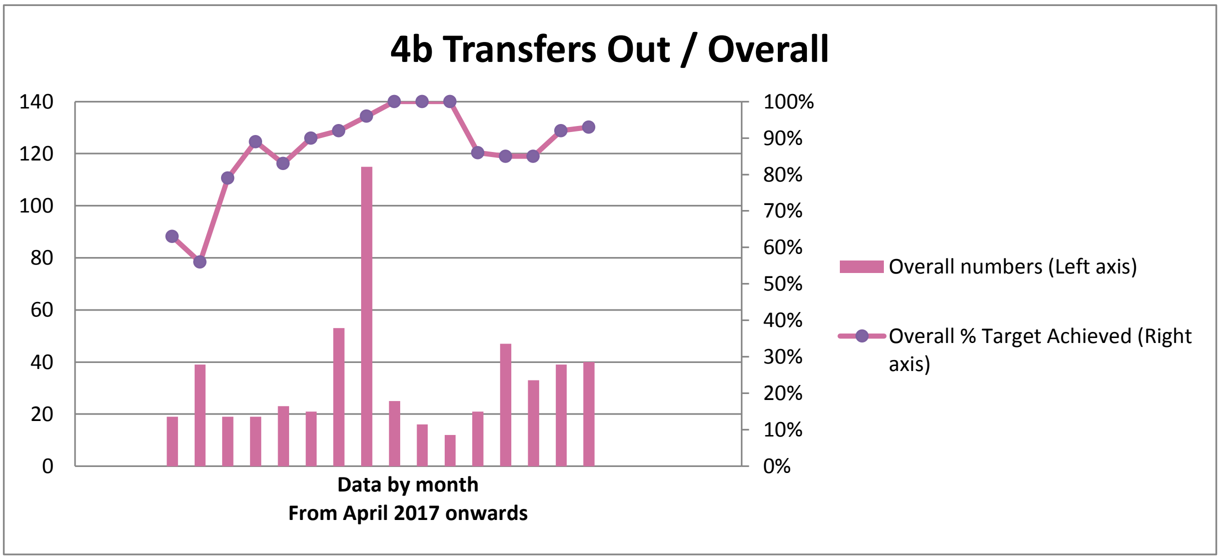


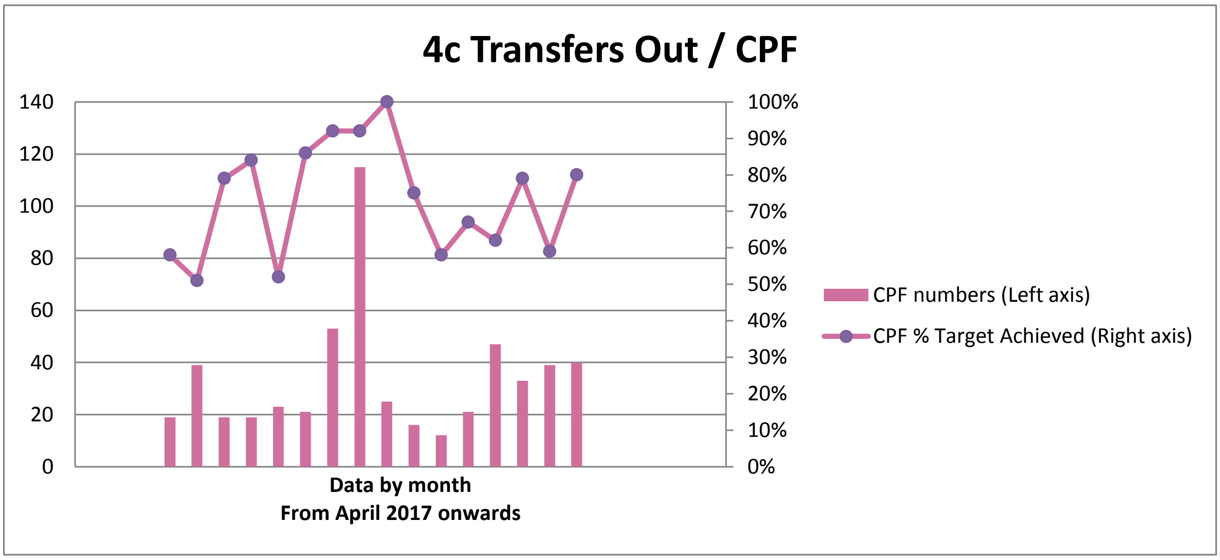




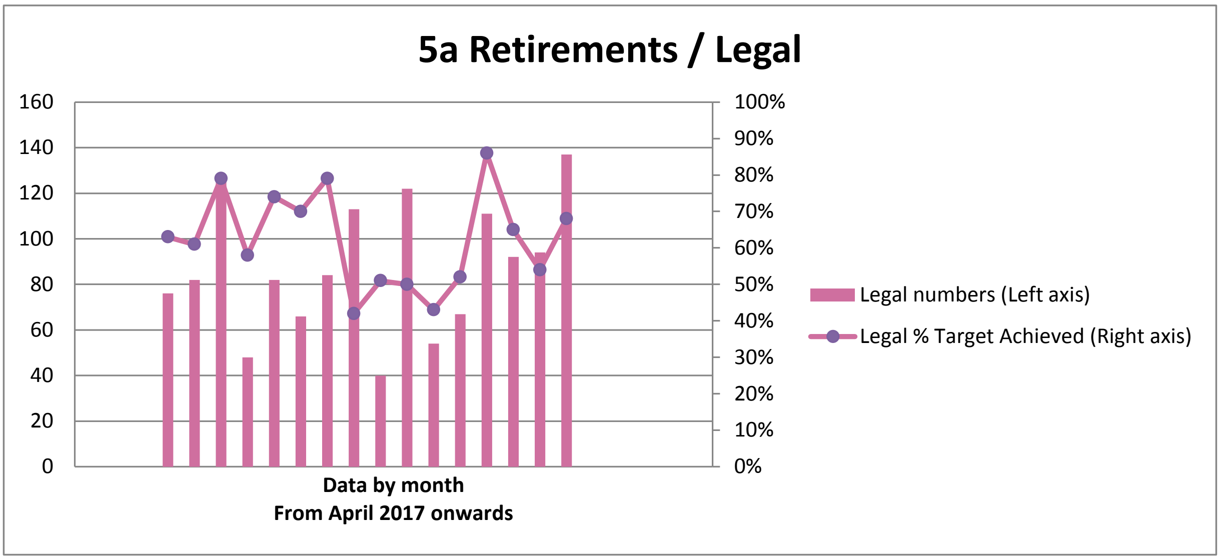
Key Performance Indicators - relating to 31 August 2018

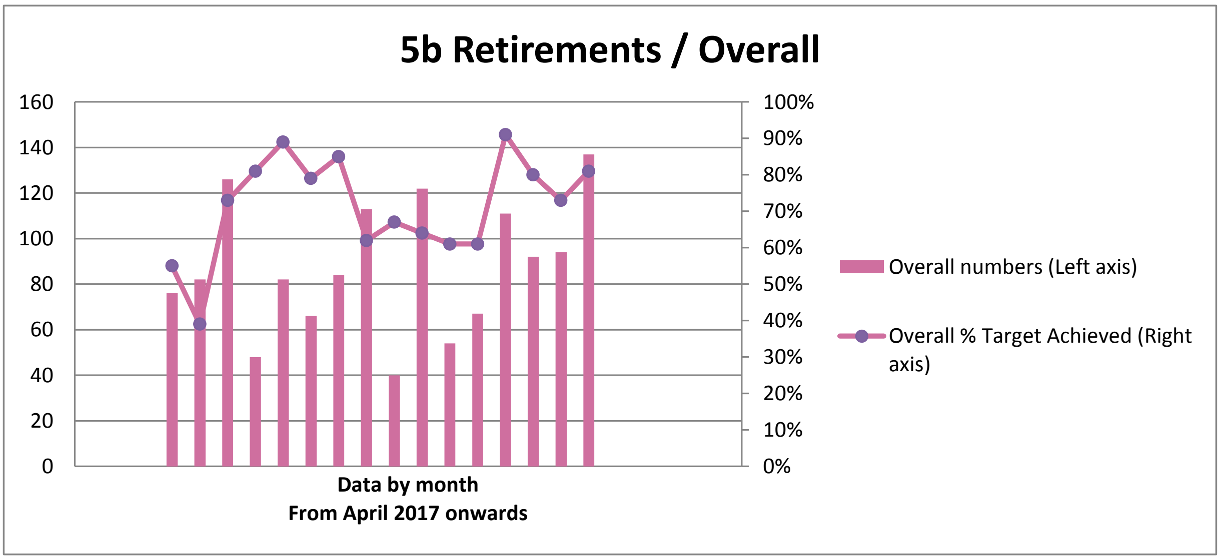


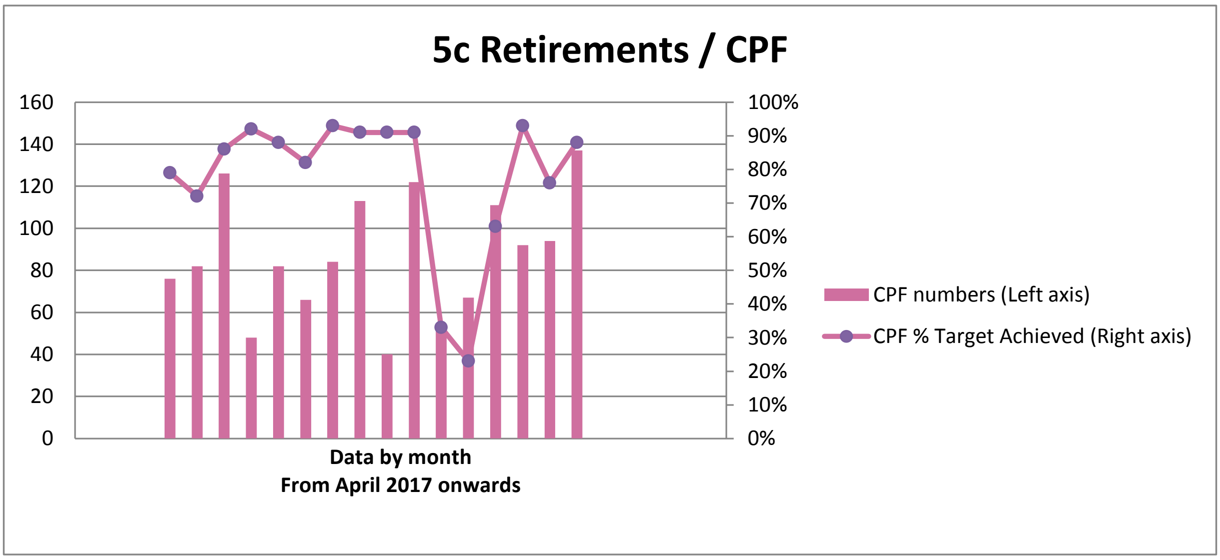




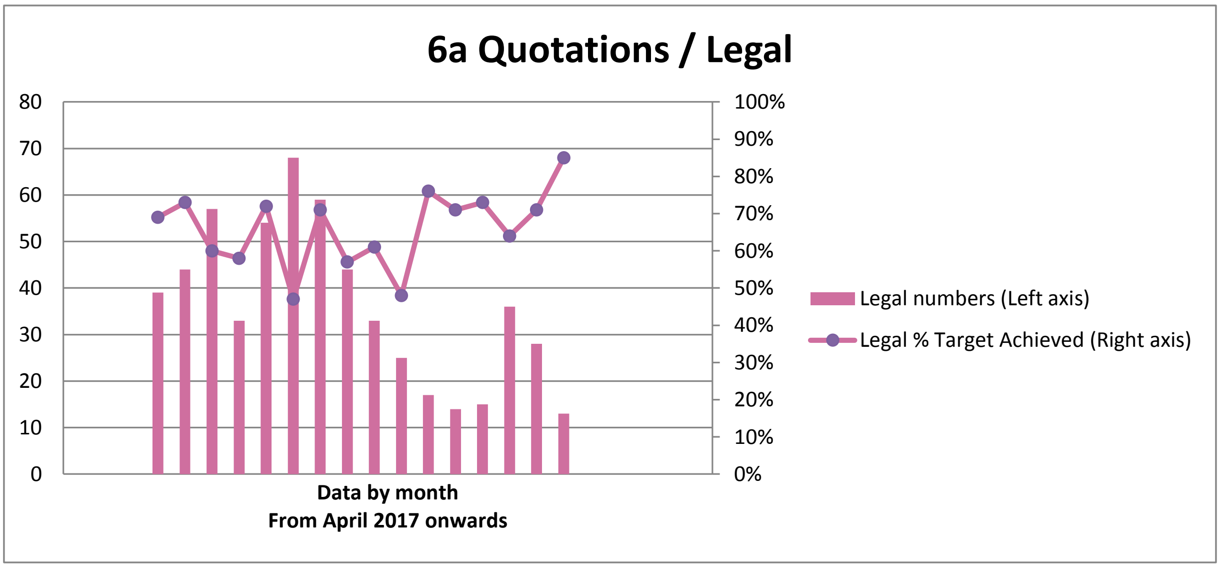
Key Performance Indicators - relating to 31 August 2018

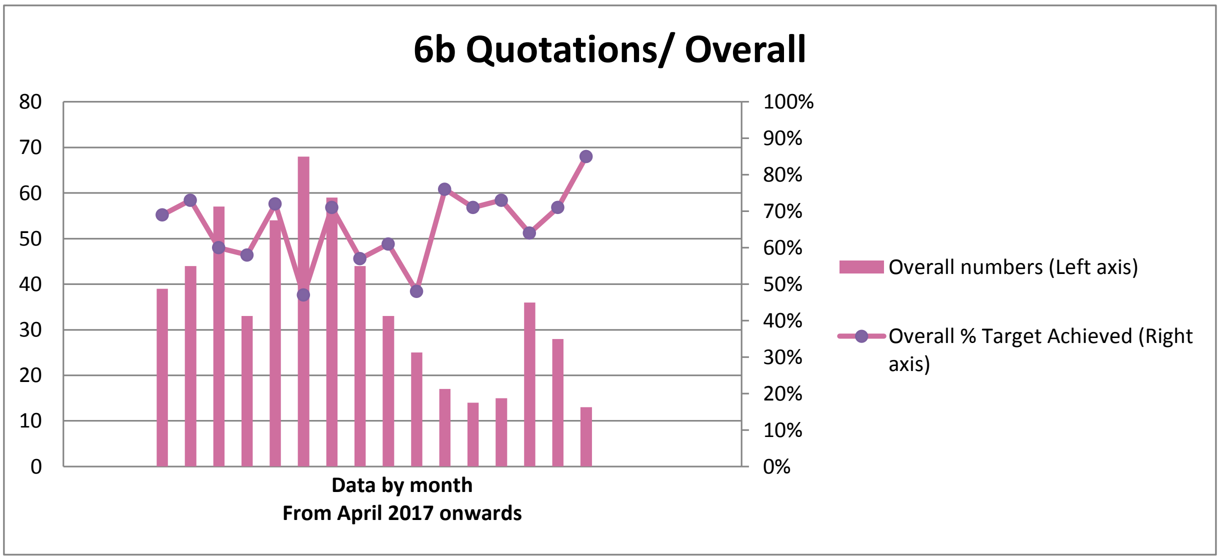


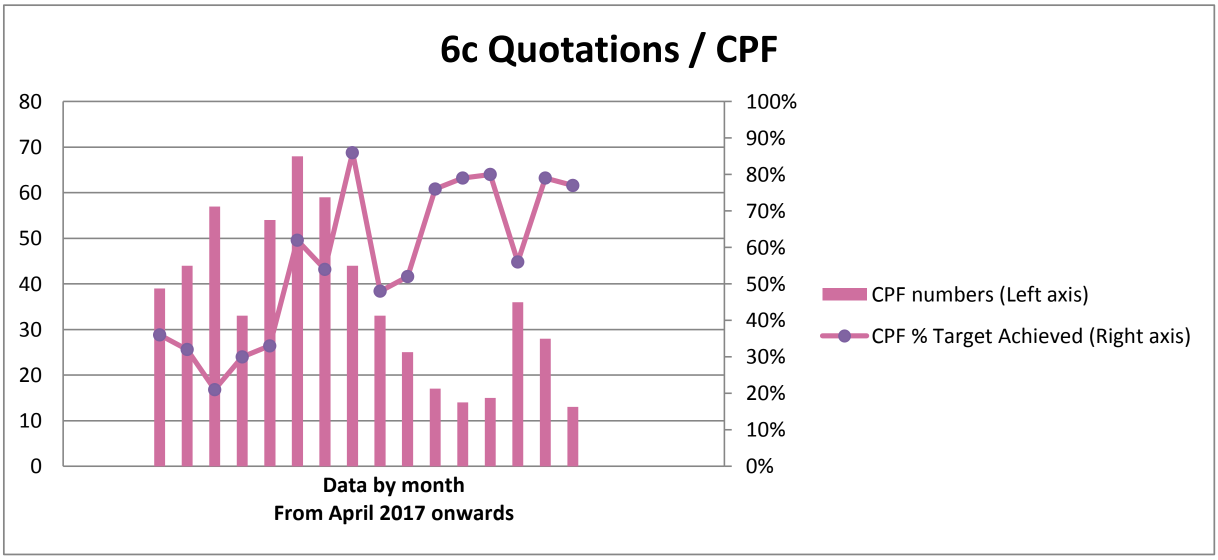




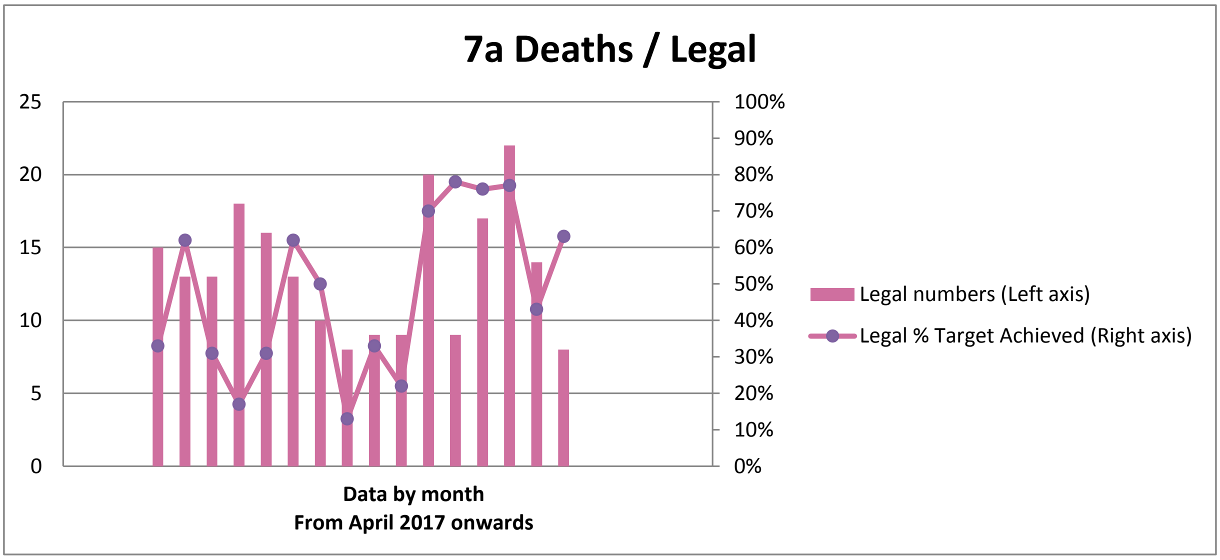
Key Performance Indicators - relating to 31 August 2018

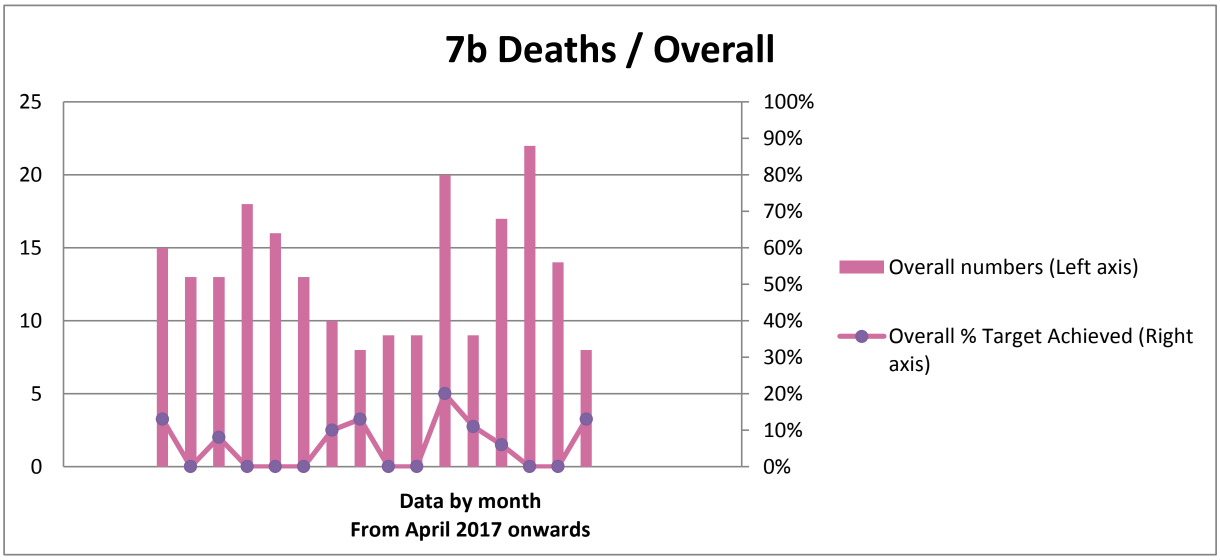


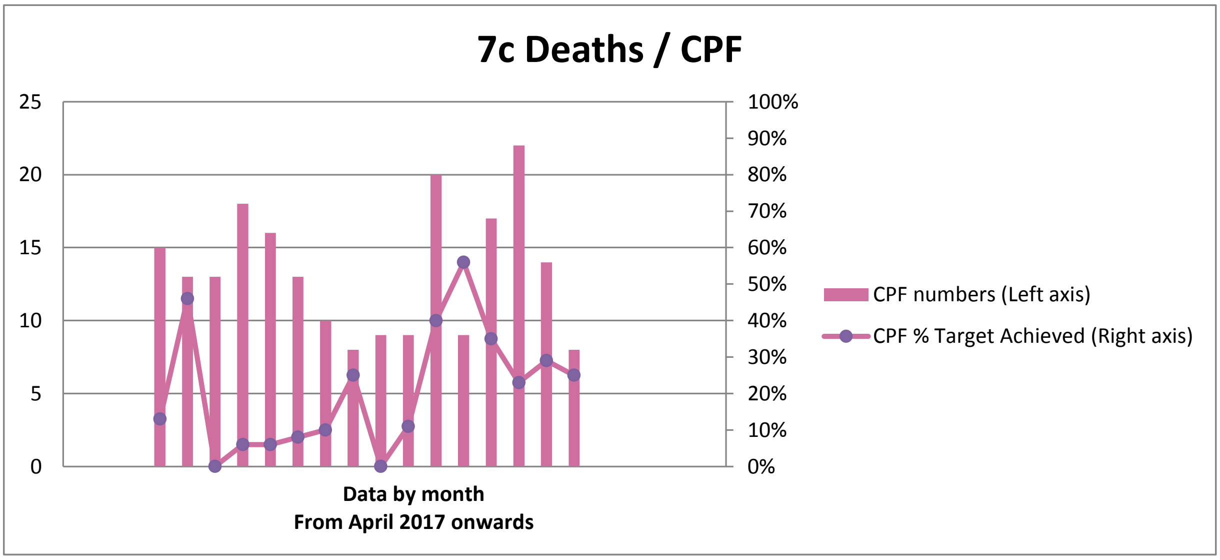




Key Performance Indicators - relating to 31 August 2018







Mae'r dudalen hon yn wag yn bwrpasol

Colin Everett
Chief Executive/Prif Weithredwr
Administrator to the Fund / Gweinyddwr y Gronfa
Gary Ferguson, CPFA
Corporate Finance Manager (Section 151 Officer)
Rheolwr Cyllid Corfforaethol (Swyddog adran 151)
Treasurer to the Fund / Trysorydd y Gronfa

Member Self Service

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Activation Key:

Expiry date: **31/10/2018**

Date: 10/08/2018

Email: pensions@flintshire.gov.uk

Dear

Your pension benefits may have changed following recent scheme amendments

I am required to contact all our members about the recent changes to the Local Government Pension Scheme (LGPS) following the release of the LGPS (Amendment) Regulations 2018. The changes impact:

- the early retirement age for **deferred and pension credit members**;
- **active members** contribution limits for any additional voluntary contributions (AVC's);
- AVC retirement benefit options for **deferred members**;
- protections for **active/deferred/pensioner members** following previous scheme changes;
- **cohabiting partners** rights to survivors benefits

Although written notification is a compulsory requirement following a regulation change, all other correspondence will continue to be communicated via 'Member Self Service'. An activation key has now been provided above for you to register for your online account. To access your account, visit mss.clwydpensionfund.org.uk and click 'Register/Login'. By selecting 'I have received my activation key' and entering your surname, national insurance number, date of birth and activation key you can set up your online account. All previous written requests for paper correspondence remain valid.

Deferred members who left the scheme before 31/03/2014 — **Early payment of deferred benefits**

This group of members are now entitled to draw their deferred pension benefits at any date following their 55th birthday. The change to the regulations means that members will no longer require their previous employers consent to draw their pension benefits before their 60th birthday. ***Members who left after 01/04/2014 are still able to draw their pension benefits from 55 years old.***

Pension credit member's — **Early payment of deferred benefits**

If a member was awarded a share of an ex-spouse's LGPS pension as part of a divorce settlement and is now a pension credit member, they can now receive these benefits any date after their 55th birthday regardless of when the pension sharing order took effect.

Reductions to pension benefits for early payment - *If you draw your deferred benefits earlier than your Normal Pension Age (NPA) they may be reduced to take account for your pension being paid for longer. How much your deferred benefits are reduced by depends on how early you take them.*

Details of the reduction factors can be found here: www.lgpsmember.org/more/reductions.php

I wish to find out my pension benefit entitlement?

You can log into your Member Self Service account and calculate your own projections. By accessing the 'Pension Benefits and Projectors' tab you will be able to alter your potential retirement date and click 'Calculate' to discover your pension entitlement and conversion options. After calculating your projections, if you wish to instigate the retirement process please email pensions@flintshire.gov.uk or write to us including your name, national insurance number and potential retirement date.

We are expecting high volumes of requests so please bear with us while we calculate your pension benefits

Active and deferred members changes to Additional Voluntary Contribution (AVC) contracts

If a member began paying AVCs before 1st April 2014, the way pension benefits are calculated, contribution restrictions and the options available at retirement have altered.

- Active members can now pay up to 100% (rather than 50%) of their pensionable pay into their AVC.
- AVCs will now be taken from any overtime (for members paying a percentage of their salary)
- If members leave and draw deferred benefits at a later date, they can now buy additional annual pension from the LGPS using their AVC.
- Members are no longer able to leave their AVC invested if they draw their LGPS pension benefits.
- The Clwyd Pension Fund now has absolute discretion over who to pay any death grant lump sum to (giving consideration to death grant expression of wishes) and this will not be subject to inheritance tax.

***More information is available here >>* www.lgpsmember.org/more/AVCoptions.php**

Active, Deferred and Pensioner members **Underpin protection**

On 1st April 2014 a protection was introduced to the scheme for members who were within 10 years of their Normal Pension Age on 1st April 2012 and were paying in on 31st March 2012. This is to ensure that they get a pension at least equal to that which would have been received if the scheme had not changed, this is known as the **Underpin**. This protection now applies if a member was paying into another public service pension scheme on 31st March 2012, joined the LGPS and transferred the public sector benefits into the LGPS to purchase final salary benefits.

More information is available here >> www.lgpsmember.org/more/underpin.php

Cohabiting partners (not detailed within the LGPS (Amendment) Regulations 2018)

Following a High Court judgement on 18th January 2018, if a member paid into the LGPS after 1st April 2008, the need to nominate a cohabiting partner has been removed. For cohabiting partners who can prove that at the date of the member's death, they met the following conditions for a continuous period of at least 2 years, a survivor's pension would be paid.
- Both have been free to marry or enter a civil partnership with each other,
- Both have been living together as if they were married or civil partners, and neither partner have been living with someone else as if they were a married couple or civil partners,
- Either cohabiting partner is, and has been, financially dependent on their partner, and have been financially interdependent on each other.

I hope you find the above information useful.

Yours sincerely

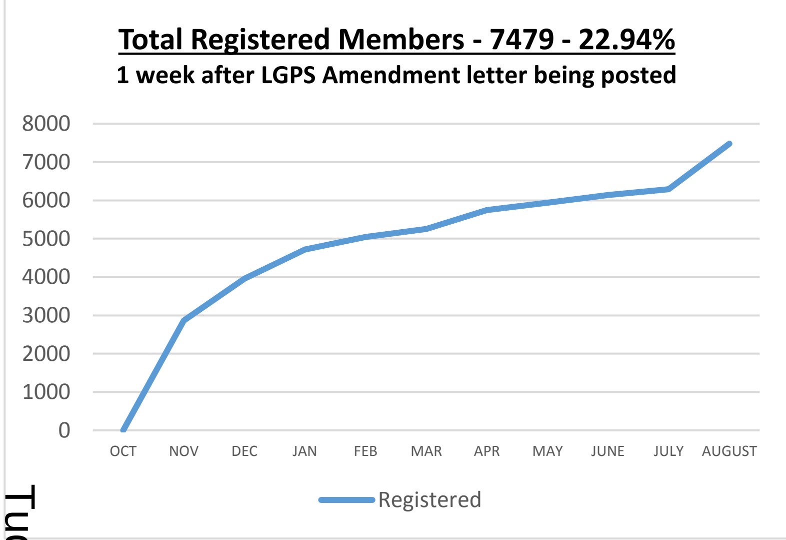
Helen Burnham

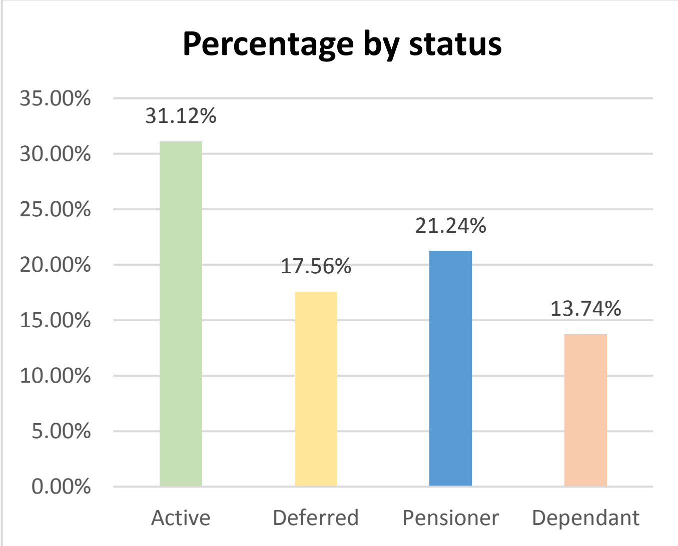
Pensions Administration Manager
Clwyd Pension Fund

Please note that Flintshire County Council is the administration authority of the Clwyd Pension Fund and we use your personal data in accordance with Data Protection legislation to provide you with a pension administration service. For more information about how we use your data, who we share it with and what rights you have in relation to your data, please visit the Privacy Notice on our website.

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

MEMBER SELF SERVICE – 17/08/18





Update from June to August 2018

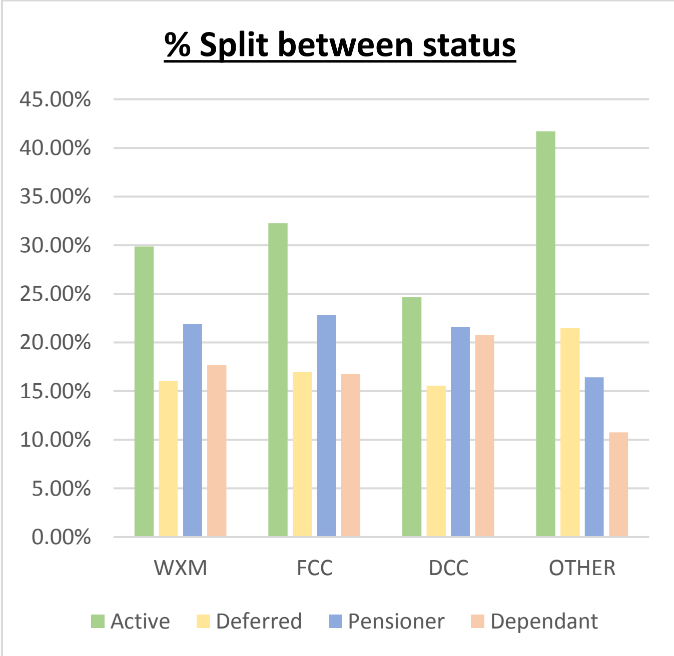
10/08/18 - LGPS Amendment Regulations letter published, bulk email sent to registered members regarding this document.

10/08/18 - **22,743 letters posted** to all unregistered members regarding the LGPS Amendment Regulations including activation keys. **841 logged** on for the first time within 6 days.

19/06/18 - Exercise ran with Coleg Cambria HR department who emailed all staff about the importance of registering. Active membership increased from **26.7% to 46.2% in 7 week period.**

Emails were distributed between smaller employers to enhance engagement (**Active 'Other' membership >>>>> increased from 28.6% to 41.4% during this 78 day period**).

Awareness meetings with **streetscene and education** at FCC now organised to enhance awareness with low engagement depts.



Statistics between 01/06/18 to 17/08/18 - 78 day period

CONTACT US TASKS

249	MSSKEY	Key requests **(3.19 per day)**
63	MSSENQ	Enquiry tasks
10	MSSEST	Estimate tasks
39	MSSRET	Retirement tasks
16	MSSTRVT	Transfer tasks
128		**Contact Us (1.64 p/day)**
251	**MSSADD**	**Address update (new)**
19		**Bank details updated**

BENEFIT PROJECTIONS

6712 BENEFIT PROJECTIONS CALCULATED

86.05 per day (up by 12 estimates per day)

EXPRESSION OF WISH

488 CHANGES OF EXPRESSION OF WISH

6.25 per day

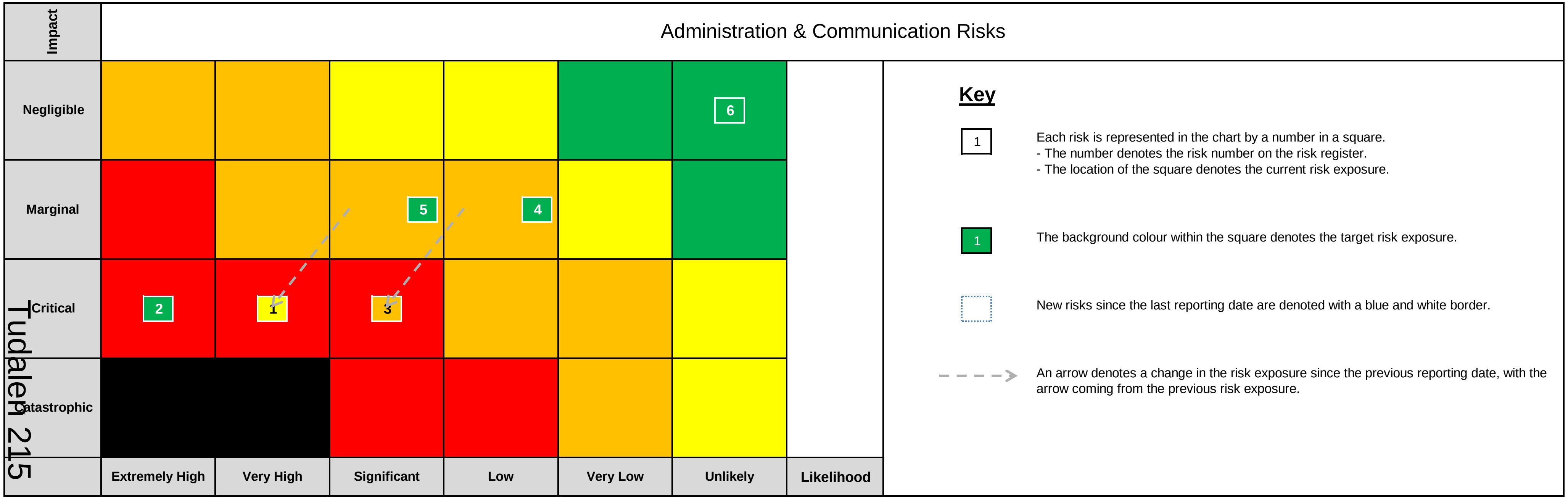
ELECTED FOR POSTAL CORRESPONDANCE

1,876 - 5.72% of overall members
163 have registered also

26	under 40	219	ACTIVE
43	40s	114	DEFERRED
153	50s	1352	PENSIONER
449	60s	191	DEPENDANTS
724	70s		
407	80s		**Average Age**
74	90+		**72 years 200 days**

Mae'r dudalen hon yn wag yn bwrpasol

Administration and Communication Risks Heat Map and Summary **Appendix 7**



29 August 2018

Clwyd Pension Fund - Control Risk Register

Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Critical	Very High		1 - Training Policy, Plan and monitoring in place 2 - BP 2017/18 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and interim resource increase	Negligible	Low		☹ Current impact 2 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing training (HB) 2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs (HB) 3 - Ongoing monitoring of ELT and Ops resource/workload for backlogs (HB) 4 - Preparation of business case for additional resources (HB)	Pensions Administration Manager	31/10/2018	04/06/2018
2	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Extremely High		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 4 too high	01/07/2016	Mar 2019	1 - Ongoing roll out I-connect (HB) 2 - Ongoing monitoring of ELT resource/workload (HB) 3 - Implement further APP data checks to identify issues (PL) 4 - Develop and roll out APP training (PL)	Pensions Administration Manager	31/10/2018	13/11/2017
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Significant		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required	Marginal	Low		😐 Current impact 1 too high Current likelihood 1 too high	27/08/2018	Mar 2019	1 - Preparation of business case for additional resources (HB)	Pensions Administration Manager	31/10/2018	21/03/2017
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017)	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2019	1 -Ongoing promotion of member self service (HB) 2 - Ongoing identification of data issues and data improvement plan (HB) 3 - Review of effectiveness of new website/iConnect planned for 2018/19 (HB)	Pensions Administration Manager	31/12/2018	04/06/2018
5	High administration costs and/or errors	Systems are not kept up to date or not utilised appropriately, or other processes inefficient	A2 / A4 / C4	Marginal	Significant		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation)	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan (HB) 3- Review of effectiveness of new website/iConnect planned for 2018/19 (HB) 4 - Implementation of other Altair modules in 2018/19 business plan (HB)	Pensions Administration Manager	31/12/2018	13/11/2017
6	Service provision is interupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented	Negligible	Unlikely		☺			1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (HB) 2 - Resolve other areas identified by last disaster recovery test (HB) 3 - Implement lump sum payments via pensioner payroll facility (HB)	Pensions Administration Manager	31/12/2018	13/11/2007

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Active Global Equity Transition
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The Clwyd Pension Fund is a Constituent Authority of the Wales Pension Partnership (WPP) which has two active global equity funds within the Authorised Contractual Scheme (ACS) approved by the Financial Conduct Authority (FCA) now available for investment.

The Clwyd Pension Fund has a strategic allocation of 4% to active global equity. The mandate with a current value of circa £80m has been managed by Investec Asset Management since 2007. These assets should now be transferred to the WPP ACS in line with both the WPP Inter-Authority Agreement (IAA) and the Fund's Investment Strategy Statement (ISS).

Officers and Investment Consultant have reviewed the two funds available and concluded that all the Fund's allocation should be transferred to the 'Global Equity Opportunities Fund' managed by Russell Investments as opposed to the Global Equity Growth Fund managed by Link Asset Services, or allocating to both. Under the 'Delegation of Functions to Officers by the Pension Fund Committee' this requires ratification by the Committee.

Under the terms of the IAA the timing of the transition is a reserved matter for this Committee. This report recommends that the timing is now delegated to officers after considering advice from a specialist transition manager.

RECOMMENDATIONS	
1	That the Committee ratify the decision to invest in the Wales Pension Partnership Global Equity Opportunities Fund which will be funded from the current active global equity mandate with Investec Asset Management.
2	That, in accordance with the reserved matter requirements of the IAA regarding the timing of the transition, the Committee agree that these assets should be transitioned in the coming months having regard to the advice of a specialist transition manager.

3	That the Committee delegate the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) after considering advice from that specialist transition manager.

REPORT DETAILS

1.00	**Active Global Equity Transition**
1.01	As reported in Agenda Item 6 Pooling Investment in Wales, the Wales Pension Partnership (WPP) has two active global equity funds within the Authorised Contractual Scheme (ACS) approved by the Financial Conduct Authority (FCA) now available for investment. The WPP is appointing a transition manager to manage the transition of circa £3.4bn of assets between the seven constituent authorities who plan to invest in one or both of these funds. Subject to formal approval by each authority, initial estimates are that 3 will invest £1.9bn in the Global Equity Growth Fund with Link as contracted investment manager and 6 investing £1.5bn in the Global Equity Opportunities Fund with Russell as the contracted investment manager.
1.02	The Clwyd Pension Fund has a strategic asset allocation of 4% or circa £80m to active global equity. The Fund's mandate has been managed by Investec since 2007 but to comply with the MHCLG's Statutory Guidance, WPP IAA signed by the Fund and the Fund's own ISS this mandate should now be transferred to the WPP ACS. Under the terms of the IAA the timing of the transition of these assets is a reserved matter for this Committee. Under the 'Delegation of Functions to Officers by the Pension Fund Committee' the selection, appointment and dismissal of Fund Managers (i.e. which Fund to transfer the assets to is delegated to the Clwyd Pension Fund Manager, Corporate Finance Manager and Chief Executive (having regard to ongoing advice of the Investment Consultant) and subject to ratification by Pensions Fund Committee.
1.03	Officers representing the Clwyd Fund on the WPP Officer Working Group have been working with both Link and Russell on finding suitable solutions which meet the objectives of the Clwyd Fund, as well as for the other six pension funds requiring active global equity exposure. Both the funds available are a multi-manager solution and under the terms of the Operator Agreement have been developed on a 'Consultative Basis' as opposed to 'Non-Consultative'. This means that although Link and Russell are the contracted investment managers they then appoint several fund managers to deliver the mandate. However, due to the Consultative nature of the approach, the WPP Joint Governance Committee (JGC) have the final approval on the underlying fund managers used. The Operator agreement allows the WPP to move to a Non-Consultative approach in the future. In terms of the underlying fund managers, the Clwyd Fund Officers have considered information provided by the contracted investment managers and after taking advice from our investment consultant are satisfied with the underlying fund managers being used.

1.04	The two funds will be managed by the contracted investment managers in different ways. The Global Equity Opportunities Fund managed by Russell will combine 3 global fund managers, with different investment styles and 4 regional fund managers which specialise in US, European, Japanese and Emerging Markets. Russell believe through their research and experience that this approach provides the best risk/return profile through different market cycles. Russell will actively manage the risks within the portfolio and weighting of the assets between the underlying fund managers. The two senior portfolio managers, Neil Jenkins and William Pearce have over 10 years' experience of successfully managing Global Equity mandates on this basis. This process has been reviewed by Clwyd Fund Officers and the Fund's investment consultant who are satisfied with this approach and hence this report asks for ratification to transition to this Russell managed fund. The Global Equity Growth Fund will have 3 global fund managers, each with a different investment styles, two of which are fund managers currently mandated by several WPP constituent authorities. They are different to the three global fund managers in the 'Opportunities Fund'. Russell's expectation is the excess return for the Global Equity Growth Fund will be lower, the tracking error (risk) higher and the expected average manager cost higher. Albeit the differences are marginal and other opinions are valid.
1.05	According to Russell there is a value for money improvement of 1.71% p.a. by transitioning to the Global Equity Opportunities Fund from the Clwyd Fund's current mandate with Investec: • Potential excess return improvement of 1.25% p.a. • Likely withholding tax recapture of 0.19% • Russell proprietary trading techniques of 0.08% • Lower manager fees of 0.19% The potential excess return is open to challenge, as there can never be any certainty when forecasting equity market cycles or fund manager performance. The current target performance of the Investec mandate is +3% gross of fees above the benchmark. Russell expected excess return gross of fees is 2% for the 'Opportunities Fund' but at a lower risk with an expected tracking error of 1.3% p.a. Despite adding considerable value, at this point in time, Investec have not achieved the +3% target since the Fund's inception which maybe proves Russell's expectations are more reasonable for target return.
1.06	Hence in summary, both Clwyd officers and JLT are satisfied that the Global Equity Opportunities Fund managed by Russell should prove a better risk and return profile at a lower cost than the current Investec mandate or the alternative Global Growth Equity Fund and concluded that the assets in the current Investec mandate should transfer to that Fund. For this mandate, at least in theory, the Clwyd Fund should benefit from the Government's pooling initiative. The Committee is therefore asked to ratify the decision to invest in the Wales Pension Partnership Global Equity Opportunities Fund which will be funded from the current active global equity mandate with Investec Asset Management.

1.07	Under the terms of the IAA the timing of the transition is a reserved matter for this Committee. Accordingly it is proposed that the Committee agree the transition of these assets should take place over the coming months having regard to the advice of a specialist transition manager. The Committee is asked to delegate the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) i.e. Clwyd Pension Fund Manager and/or Pension Finance Manager after considering advice from that specialist transition manager.

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2018/19 budget. The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Pension Finance Manager on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None.

4.00	**RISK MANAGEMENT**
4.01	How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations.
4.02	This risk has been identified as significant in the Fund's risk register.

5.00	**APPENDICES**
5.01	None

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Earlier Committee reports on the progress of the WPP. • The Wales Pension Partnership Inter-Authority Agreement.

	Contact Officer: Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(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 (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. (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 (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of **(e) Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling **(f) Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments **(g) The Operator –** an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link (h) **Financial Conduct Authority (FCA)** – the regulator of the financial markets and financial services firms in the UK

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 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) The Business Plan 2018/19 update for quarter 1 (April to June 2018) is attached as Appendix 1. There are two tasks relating to this quarter, Asset Pooling (progressing on target) and Flightpath Review (Completed)

(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 6.

(c) Delegated responsibilities (Appendix 2). 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

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
	Business Plan Update
1.01	Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plan up to the end of quarter 1 to 30 June 2018.

	Work in relation to Asset Pooling is continuing and the FCA have approved the first two Sub Funds for Global Equities for the Wales Pension Partnership. The WPP have also issued a tender for a Transition Manager to transition the Global Equity Assets into the Sub Funds. Further information has been detailed in Agenda item 10. The Flightpath Review has been completed as detailed in Agenda item 14.
  1.02	**Policy and Strategy Implementation and Monitoring** 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 13. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • Private Equity and Real Assets Group (PERAG) The Fund has reviewed all its main policies for inclusion in the Annual Report. Any minor changes can be made under delegations to officers. Details of the policies reviewed and subsequent changes have been included in Agenda item 5. The Funding Strategy Statement and termination policy has been reviewed and is now being circulated to Employers for consideration and comments before being brought to the Pension Fund Committee for approval. The Interim Funding Review has now commenced in Quarter 2 and the Fund sent membership data to Mercer on 2nd August 2018. A meeting has been arranged with Fund officers on 28th September 2018 to discuss the initial major employers and whole Fund results. A further Steering Group Meeting for the Finance Directors of the 3 Unitary Authorities has also been arranged for 3rd October 2018.
  1.03	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise: • 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, 3 commitments have been made in the Private Equity portfolio and 1 in the Real Asset portfolio all of which follow the strategy agreed by the Advisory Panel for these asset classes.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report.

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 3 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	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 and Funding, one is substantially different to the target risk, F6 with the other two being just one step away from their targets. Risk F6 remains the only risk with a significant likelihood and this relates to matters related to Pooling and Brexit.

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

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

7.00	**GLOSSARY OF TERMS**
7.01	(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

	(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. (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 (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. (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. (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. (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/

Business Plan 2018/19 to 2020/21 – Q1 Update
Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
F1	Asset Pooling Implementation	x	x	x	x	x	
F2	Flightpath Review	x				x	x

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Asset Pooling Implementation

What is it?

To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pensions Partnership ("WPP"). A plan will be developed in relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Develop and agree on initial asset transition plan (reserved matter)	2018/19 Q1
Understand and feed into the development of the role, responsibilities and discretions of the Operator	2018/19 Q1/2
Identify impact on and develop internal processes and resources	2018/19 Q1
Approve the WPP's business plan (reserved matter)	2018/19 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2018/19 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2018/19 Q1 - 4, and 2019/20 Q1/2
Understand infrastructure opportunities	2018/19
Develop process to capture WPP cost versus existing costs to identify benefits and savings of asset pooling	2018/19
Develop and agree any supplementary transition plans (reserved matter)	2018/19 (to be confirmed)

Resource and Budget Implications

2018/19 and future budgets will include the cost of the Operator. For 2018/19 a provisional amount of £50k has been included for a proportion of the year. Along with budgeted WPP costs of £24k. The Consultant and Adviser budgets include an additional estimated amount of £192k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

F2 –Flightpath Review

What is it?

The Administering Authority implemented a “Flightpath” risk management investment strategy with effect from 1 April 2014, with the aim of more effectively controlling and limiting interest and inflation risks (as these factors can lead to significant changes to liability values and therefore the deficit). The overall funding Flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. Further details are in the Fund's Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

A regular review is carried out to ensure its aims remain appropriate and it is still fit for purpose. As a result monitoring of the restructuring of the mandate is done on a monthly basis. This will continue to be reviewed in conjunction with insight to maximise operational efficiency and the delivery of further added value to the mandate. The current equity protection contract expires on 26th April 2018. The review and implementation of a replacement contract or other arrangement will be undertaken prior to the expiry. The main objective is to protect contribution outcomes for the employers of the Fund at the 2019 and potentially subsequent valuations.

Timescales and Stages

An annual health-check of flightpath structure	Q1 2018, 2019 and 2020
Review of Equity protection structure	Q1 2018, 2019 and 2020

Resource and Budget Implications

To be resourced through the Funding Risk Management Group, which will result in additional costs that are estimated within the budgets provided.

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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.061	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Clwyd Pension Manager who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

In the quarter to June 2018 there were no movements of assets.

Cash Management

Background

The Pension Finance Manager forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored and revised quarterly. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 30th June 2018 was £26.3m (£21.2m at 31st March 2018). Cash balance as at 30th August 2018 was £22.29m. The cash flow has been monitored to ensure there is sufficient monies to pay benefits and capital calls for investments.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.062	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the 'Best Ideas' portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund (increased from 9% at the last strategic review). The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

Action Taken

Since the previous Committee the following transactions were agreed within the portfolio:

- Full redemption of Investec Emerging Market Debt - 18.0m (crystallised -5.8%)
- Part redemption of BlackRock Emerging Market Equity - 11.0m (crystallised +7.8%)
- Additional Investment of £13.9m in BlackRock US Opportunities
- Additional investment of £9.6m in LGIM Global Real Estate Equity
- Additional investment of £5.5m in BlackRock Japanese Equities

The current allocations within the portfolio following the transactions are:

- US Equities (3.7%)
- Emerging Market Equities (1.7%)
- European Equities (1.1%)
- Japanese Equities (1.5%)
- Commodities (0.8%)
- Real Estate (1.4%)
- Infrastructure (0.8%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Clwyd Pension Fund Manager and decisions made under this delegation are be circulated to the Advisory Panel.

As at the end of June 2018, the Best Ideas portfolio has outperformed its target since inception by 2.6% per annum.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.063	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's investment strategy includes a 22% asset allocation to private equity (10%), property (4%), infrastructure (7%) and agriculture (1%). The last strategic investment review reduced the property allocation by 3% and increased the infrastructure allocation by 4%. Given the illiquid nature of these investments this transition will take a number of years to implement. These are higher risk investments, usually in limited partnerships, hence small commitments are made of £8m in each. Across these asset categories there are currently in excess of 50 investment managers, investing in 115 limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made.

A review was undertaken of the existing portfolio and future cash flows and the results were incorporated into the forward work plan. As a result, extensive work has been carried out to identify suitable Infrastructure investments. Several commitments have already been agreed and further due diligence is still being undertaken on other possible opportunities. It is anticipated that an allocation of 7% to Infrastructure will be achievable by 2020. Within the remaining In House portfolio, officers are continuing to look at any opportunities which fulfil their agreed strategy. The minutes of the PERAG Group are circulated to the Advisory Panel

Action Taken

Due diligence has been undertaken on the following Private Equity and Property Funds, all of whom are existing managers included in our forward work program, coming back to the market with follow on Funds The following commitments have been made under delegated authority since the last Committee:

- €10 million to Capital Dynamics Global Secondaries Fund V (Global Private Equity Secondaries Fund targeting 15 - 20% Net IRR)
- £8 million to ETF 3 (Pan European Private Equity Fund targeting 10 – 15% Net IRR)
- £8 Million to ECI 11 (UK Private Equity Fund targeting 15 – 20% Net IRR)
- £8 Million to Paloma II (UK Real Estate Fund targeting 15% Net IRR)

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Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary **Appendix 3**

Funding & Investment Risks (includes accounting and audit)

Impact						
Negligible					7	
Marginal					5, 8	
Critical				3, 4, 1, 2		
Catastrophic			6			
	Extremely High	Very High	Significant	Low	Very Low	Unlikely

Likelihood

Key

1 Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

29 August 2018

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (3/2017) and Statement of Investment Principles (3/2017):

F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within resonable risk parameters
F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.
F8 Ensure that its future strategy, investment management actions, governance and reportin gprocedures take full account of longer-term risks and sustainability
F9 Promote acceptance of sustainability principles and work tougher with others to enhance the Fund's effectiveness in implementing these.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low		😐 Current likelihood 1 too high	31/03/2016	Mar 2019	1 - Finalise employer covenant monitoring and ill health captive (DF)	CPFM	30/09/2018	13/11/2017
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Low		See points within points 3,4 and 5	Marginal	Low		😐 Current impact 1 too high	31/03/2016	Mar 2019	1 - Revised Equity Protection Strategy to be put in place (PL) - See points within points 3,4 and 5	CPFM	30/09/2018	04/06/2018
3	Investment targets are not achieved therefore reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Low		1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available.	Critical	Low		☺			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)	Pension Finance Managers	30/09/2018	13/11/2017
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low		1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee.	Marginal	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	31/03/2016	Mar 2019	1 -The level of hedging will be monitored and reported regularly via FRMG (DF)	Pension Finance Managers	30/09/2018	13/11/2017
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low		☺			1 - Assumptions and experience will be reviewed at the 2019 valuation (DF)	Pension Finance Managers	30/09/2018	13/11/2017
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Catastrophic	Significant		1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Particiaption in National consultations and lobbying	Marginal	Low		😐 Current impact 2 too high Current likelihood 1 too high	31/03/2016	Mar 2019	1 - Ensure proactive responses to consultations etc. (PL)	CPFM	30/09/2018	13/11/2017
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update.	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low		☺			1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place). (DF) 2 – Contact major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF)	Pension Finance Managers	30/09/2018	04/06/2018
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		😐 Current likelihood 1 too high	31/03/2016	Mar 2019	1 - Employer risk management framework to be finalised (DF)	Pension Finance Managers	30/09/2018	13/11/2017

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Economic and Market Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 30 June 2018.

Most equity markets have been positive over the quarter and recovered most if not all of the ground lost in the first quarter of 2018. However volatility remains a factor in markets, with markets being affected by the monetary tightening policies in the US, and the trade tensions between the US and China. Political uncertainty in a number of areas and the potential impact of Brexit are also having an impact.

The economic backdrop is continuing to hold firm in developed markets, with more and more signs that we are entering a new and later phase of the market cycle.

Rising US interest rates, the potential ending of European quantitative easing (QE) and a robust global corporate earnings season indicate that the short term noise and aggressive corrections seen in the US and UK equity markets in Q1 appear to be temporary setbacks rather than capitulation. Strong economic fundamentals remain despite the political backdrop and the expected stress of trade wars.

There were positive returns across most equity markets in the period, with the exception of Emerging and Frontier markets. The US market increased by 10% in the quarter; UK equities also showed strong performance returning 9.2%. Commodities markets had a positive quarter increasing by 7.7%, whereas Bond markets were all negative.

RECOMMENDATIONS	
1	To note and discuss the Economic and Market Update 30 June 2018.
2	To note how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update 30 June 2018** The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections: • **Market Background** – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies. • **Economic Statistics** – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing • **Market Commentary** – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).

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	None.

5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 30 June 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update Period Ending 31 March 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 30 JUNE 2018

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1 MARKET BACKGROUND
PERIOD ENDING 30 JUNE 2018

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	9.2	9.0	9.6
Overseas Developed	7.0	9.4	15.9
North America	10.0	12.5	18.1
Europe (ex UK)	3.7	2.9	12.1
Japan	3.2	9.3	13.5
Asia Pacific (ex Japan)	4.4	6.0	14.7
Emerging Markets	-2.4	5.9	10.9
Frontier Markets	-11.9	-1.2	6.7
Property	2.0	9.7	7.6
Hedge Funds**	0.4	4.0	2.7
Commodities**	7.7	27.6	-5.6
High Yield**	-0.6	0.5	4.8
Emerging Market Debt	-4.8	-3.9	8.1
Senior Secured Loans**	0.0	2.1	2.8
Cash	0.1	0.4	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-0.4	4.2	8.3
Index-Linked Gilts (>5 yrs)	-1.2	2.0	8.5
Corporate Bonds (>15 yrs AA)	-1.5	-0.2	7.4
Non-Gilts (>15 yrs)	-1.4	0.1	7.4

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-5.9	1.6	-5.7
Against Euro	-0.9	-0.7	-7.1
Against Yen	-2.0	0.2	-8.7

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.1	3.4	2.8
Price Inflation – CPI	0.8	2.4	1.8
Earnings Inflation*	1.3	2.6	2.4

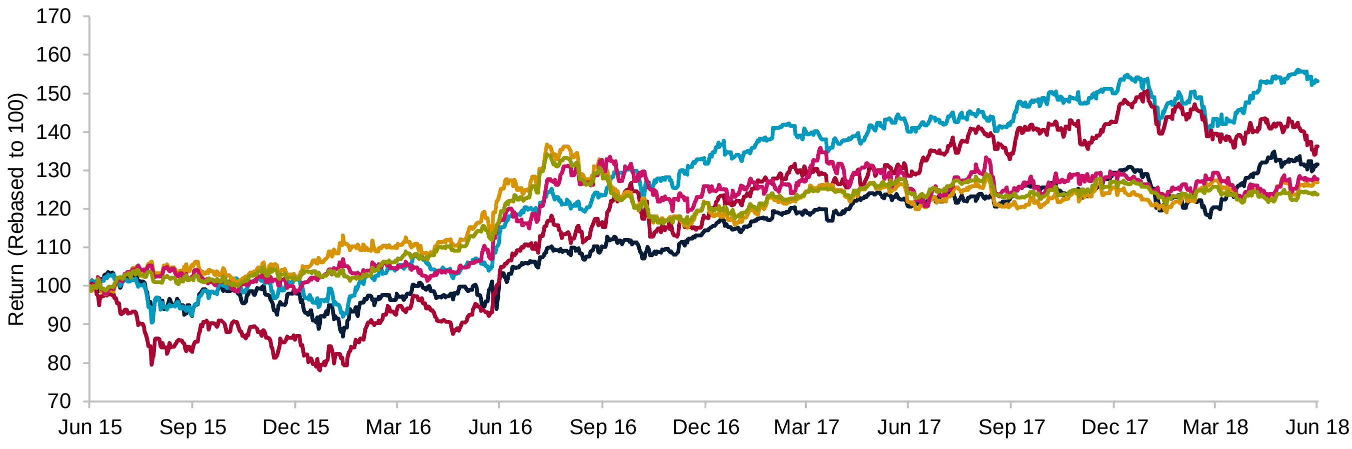
Yields as at 30 June 2018	% p.a.
UK Equities	3.64
UK Gilts (>15 yrs)	1.67
Real Yield (>5 yrs ILG)	-1.59
Corporate Bonds (>15 yrs AA)	2.72
Non-Gilts (>15 yrs)	3.16

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.21	0.03	0.18
UK Gilts (>15 yrs)	0.04	-0.13	-0.96
Real Yield (>5 yrs ILG)	0.07	-0.01	-0.83
Corporate Bonds (>15 yrs AA)	0.15	0.16	-0.96
Non-Gilts (>15 yrs)	0.13	0.22	-0.82

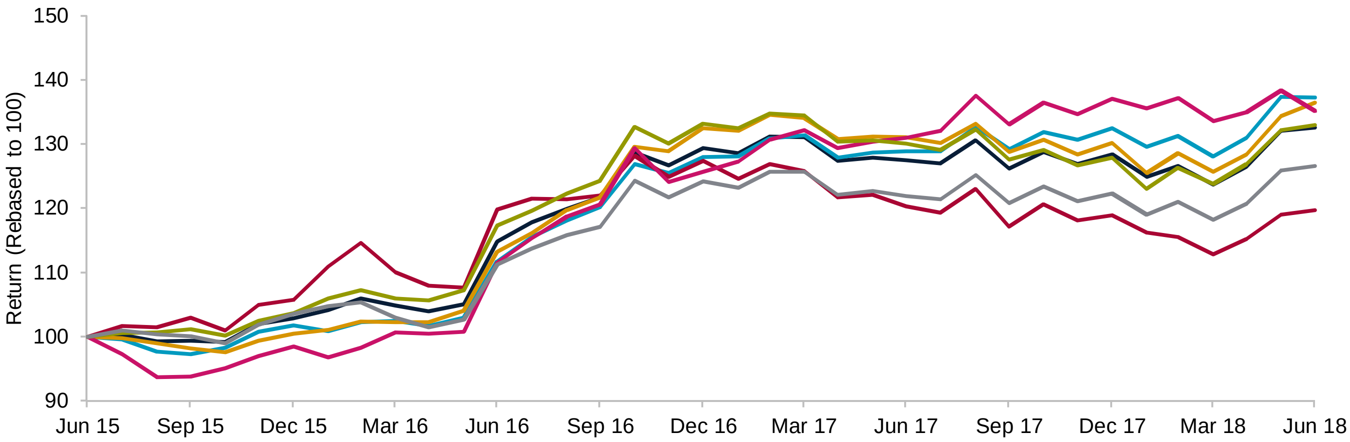
Source: Thomson Reuters.
Notes: * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

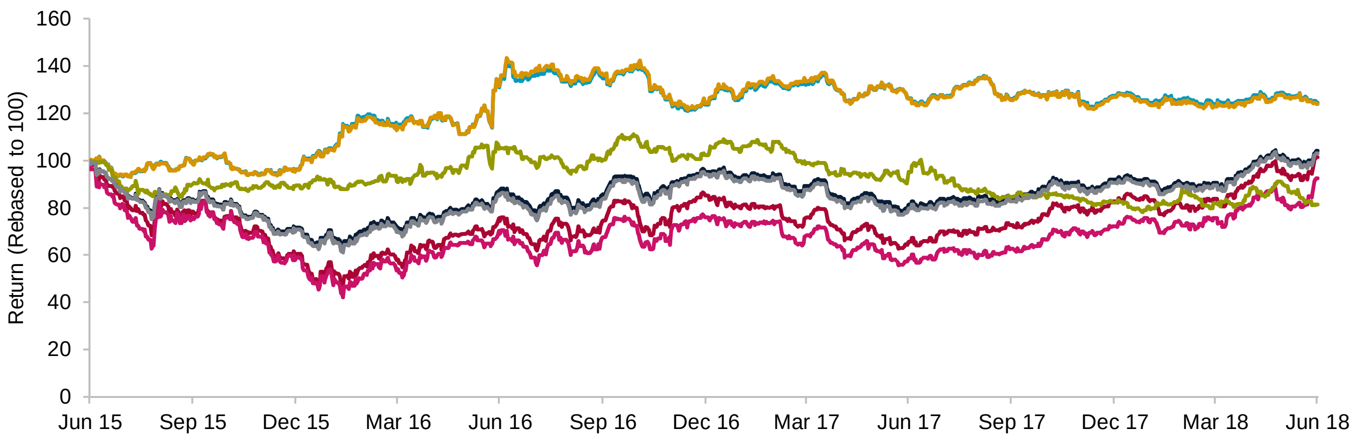
Market performance – 3 years to 30 June 2018



Hedge Funds: Sub-strategies performance – 3 years to 30 June 2018

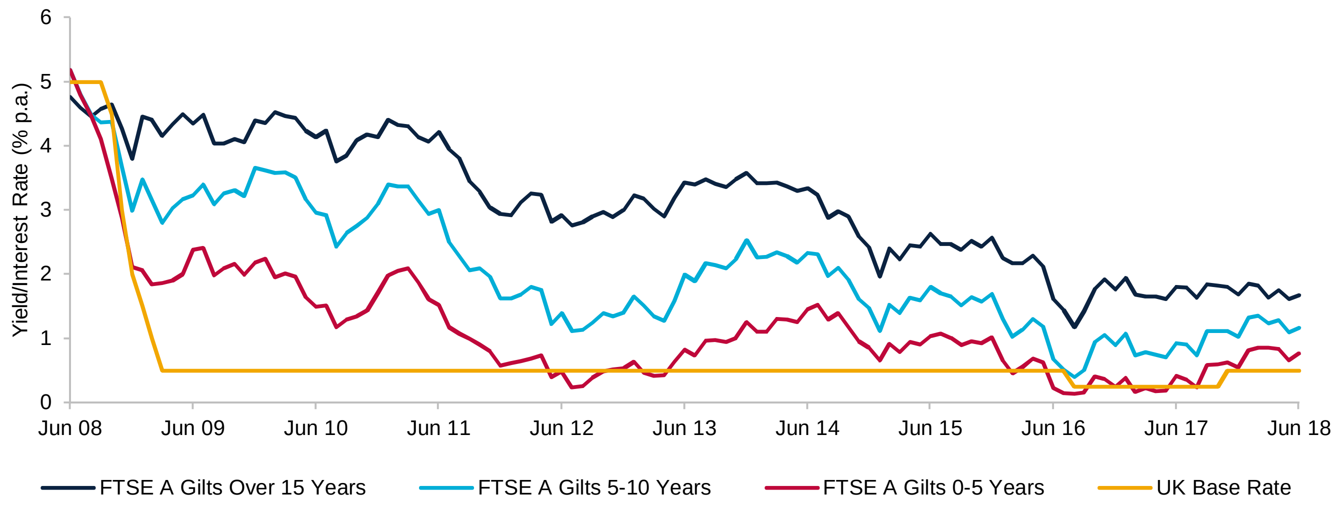


Commodities: Sector performance – 3 years to 30 June 2018

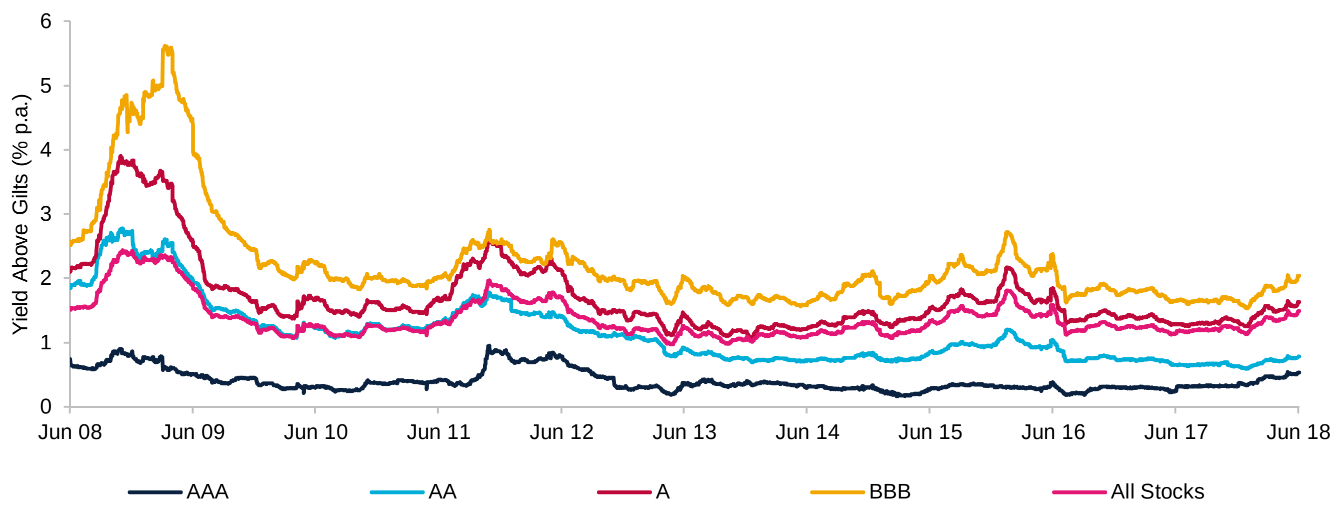


Source: Thomson Reuters

UK government bond yields – 10 years to 30 June 2018



Corporate bond spreads above government bonds – 10 years to 30 June 2018



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	30 June 2018			31 March 2018			30 June 2017		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.2%	0.0%	2.6%	1.3%	4.0%	2.5%	1.8%	2.7%	1.9%
Annual Inflation Rate[3]	2.4%	2.0%	2.9%	2.4%	1.3%	2.4%	2.7%	1.3%	1.6%
Unemployment Rate[4]	4.2%	8.3%	3.9%	4.2%	8.6%	4.1%	4.5%	9.1%	4.3%
Manufacturing PMI[5]	54.4	54.9	55.4	54.9	56.6	55.6	54.2	57.4	52.0

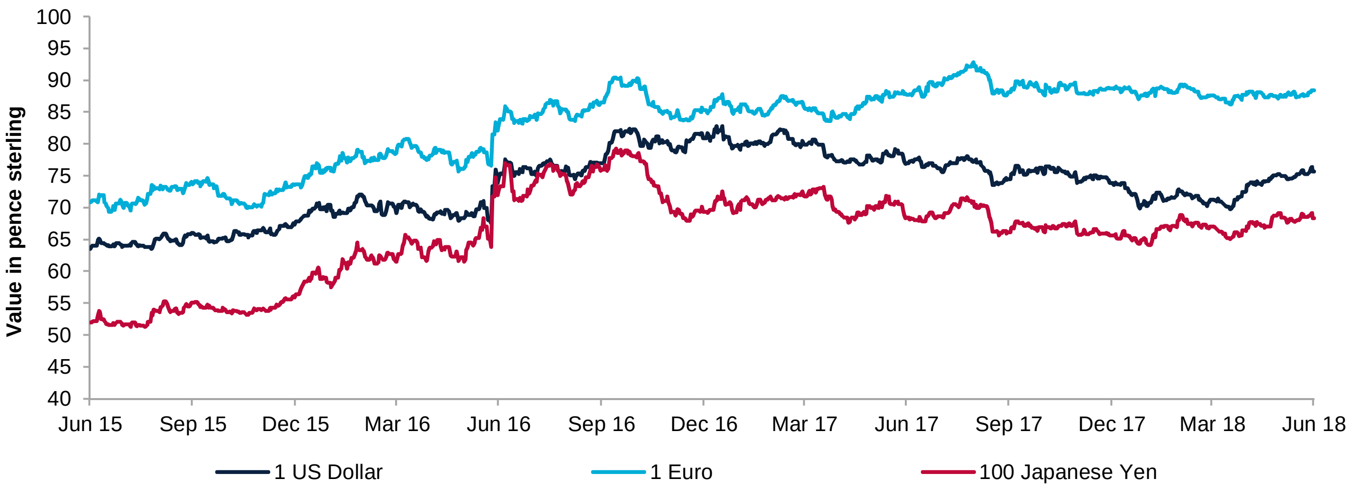
Change over periods ending:	3 months			12 months		
30 June 2018	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-0.1%	-4.0%	0.1%	-0.6%	-2.7%	0.7%
Annual Inflation Rate[3]	0.0%	0.7%	0.5%	-0.3%	0.7%	1.3%
Unemployment Rate[4]	0.0%	-0.3%	-0.2%	-0.3%	-0.8%	-0.4%
Manufacturing PMI[5]	-0.5	-1.7	-0.2	0.2	-2.5	3.4

Notes: 1.Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	30 Jun 18	31 Mar 18	30 Jun 17	3 months	12 months
1 US Dollar is worth	75.74p	71.29p	76.99p	-5.9%	1.6%
1 Euro is worth	88.44p	87.67p	87.81p	-0.9%	-0.7%
100 Japanese Yen is worth	68.38p	67.03p	68.52p	-2.0%	0.2%

Exchange rate movements – 3 years to 30 June 2018



Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, US Department of Labor and US Bureau of Economic Analysis.

3 MARKET COMMENTARY

INTRODUCTION

In a reversal of the first quarter, equity markets moved upwards to recover their losses from February and March. However, this has also caused equity market volatility to remain elevated. The reasons for the heightened volatility of markets remain similar to the first quarter of this year: the continued threat of trade wars, a tech sector recovery (instead of a rout), and rising interest rates. Major equity indices ended the quarter higher with the exception of emerging markets which are still carrying a loss for 2018.

The economic backdrop is continuing to hold firm in developed markets, with more and more signs that we are entering a new and later phase of the market cycle.

Rising US interest rates, the potential ending of European quantitative easing (QE) and a robust global corporate earnings season indicate that the short term noise and aggressive corrections seen in the US and UK equity markets in Q1 appear to be temporary setbacks rather than capitulation. Strong economic fundamentals remain despite the political backdrop and the expected stress of trade wars.

UNITED KINGDOM

- The UK equity market gained 9.2% since the start of Q2 and is up 1.7% since the start of this year. This has had the effect of restoring the gains made in 2017 which had been lost in the first quarter of the year.
- The realisation that a global protectionist trading environment has clearly dawned with sectors such as steel and aluminium already having tariffs applied to them, but so far this has had a limited impact on UK equities because of the UK's import-heavy economy. The tariffs will undoubtedly have a detrimental impact on the UK steel sector as the proposed tariff includes a 25% import tax on steel. These could be the opening shots of a more aggressive trade war and a taste of things to come.
- Ongoing concerns continue to surround the timetable and outcome of the Brexit negotiations. Uncertainties persist regarding the UK's relationship with the rest of the world post March 2019, causing businesses to delay their spending plans. In addition, the average consumer has begun to tighten their belts, with discretionary spending falling and leaving the high street shops struggling to compete with goods on the internet.
- The value of sterling compared to the US dollar has fallen 5.9% during the quarter as the realisation of the UK leaving the EU with a 'no deal' became more apparent. The growing possibility of the Prime Minister being unseated continues to reverberate. In all likelihood this will not occur until well after the UK officially leaves the European Union.

NORTH AMERICA

- The US equity market has gained 10% since the start of the second quarter and is up 5.4% since the start of the year. A mix of robust fundamentals and the current administration's statement that they are not seeking a trade war but are looking to negotiate trade deals gave the market a boost in the second quarter on hopes that diplomacy would prevail.
- Much of the recovery in US markets has been from the tech sector where investors sought stocks that had been sold during the first quarter following the data breaches and the possibility of increasing regulation in the

sector. Financials, as a sector, could however benefit in the future as the administration is keen to deregulate which could inspire investor confidence in this asset class.

- In May, China and the US held talks about trade and have reiterated that further talks will be held as both sides look to avoid a full blown trade war. Although tariffs have been imposed on both sides, the market has taken the willingness of participants to talk before tariffs are imposed as a positive. Although this might not avoid a trade war, it does signal an openness to avoid one if possible.
- Concerns remain surrounding the US fiscal deficit and the impact future interest rate rises will have on the economy. There is also an unease surrounding the progress of President Trump's protectionist trade policies and foreign policy agenda. However, the fundamentals of the US are robust with unemployment at record lows, inflation not moving ahead at a pace the consumer is finding uncomfortable and there is an environment that is supportive of rising interest rates. This coupled with the benefits of the tax reform are providing opportunities with both consumer and business confidence at record high levels.

EUROPE

- The European market returned 3.7% over the quarter and although this helped recover some of the losses from the first quarter, this asset class is still down year to date.
- Politics and tariffs dominated the investment thoughts of market participants. A populist coalition headed by Giuseppe Conte ended months of talks and took up the President's offer to form a government in Italy. The concerns that investors had about such a government were short lived with many pre-election promises kicked down the road or in the case of leaving the Euro, dropped (instead seeking to reform from within).
- With QE in the Eurozone thought to have added 0.75% to the GDP for each of the last 3 years and its impact on inflation, which is close to but below 2%, the European Central Bank (ECB) announced they would be ending their QE program later this year. By September the buying program of €30bn of assets a month will be reduced to €14bn of assets a month and will end completely by the end of the year. However, the ECB have acknowledged recent soft data relating to the region by confirming that interest rates will not be increasing for a sustained period, as they still look to continue a supportive economic environment.
- The tariffs imposed by the US on steel and aluminium (among other items) from the EU have triggered a like for like action, with Harley Davidson being just one of the big names targeted. Europe is likely to be less impacted by a trade war than other regions due to large volumes of internal EU trade and service led economies.
- The fundamentals still appear to be healthy, a view supported by the ECB's decision to end its QE program. However, there are concerns about the impact that a 'no Brexit deal' with the UK will have on the region. A move from larger, exporting companies into more EU domestically focused offerings will be worth considering in the not too distant future should a full blown trade war erupt.

JAPAN

- The Japanese equity market rose 3.2% during the quarter. This was during a period which saw a net $5bn move out of investment funds in one week in April as investors favoured emerging markets due to their attractive returns and frustration at the slower than expected pace of shareholder-friendly polices to come into force.
- The equity market has reacted well to the stabilisation of political concerns and structural reforms, together with the continuation of ultra loose monetary policy.
- Japan tends to be thought of as being export driven and so will be negatively affected by tariffs and trade wars. However, exports actually represent less than a quarter of stock market earnings and so returns are much more domestically reliant.

ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- The emerging markets have fallen during the second quarter by 2.4%. China, the largest emerging market economy fell as it struggled with both trade tariffs and a stronger dollar; whilst President Trump continues to weigh-in on their trade surplus with the US. Political turmoil has also been seen in countries such as Turkey, where voices from the central banks have been asking the Fed to be more mindful of interest rate rises; such is their impact on emerging markets.
- A significant distinction between today and the late nineties is that many emerging market currencies are now free-floating vs USD; meanwhile USD indebtedness across the Asian region is less problematic as local businesses have switched to issuing local currency debt.
- An emerging market crisis is not something that we believe to be likely at this stage as equity volatility across the asset class has been driven as much by trade tensions as that of tighter financial conditions. Corporates continue to deliver strong earnings growth and, in the Asian region, sit on relatively healthy balance sheets.

FIXED INCOME

- Within US government bonds, the key driver of negative returns over Q2 has been the US employment market – which continues to tighten whilst economic growth remains robust. The pace of US economic growth slowed only slightly in Q1 but accelerated in Q2. US 10-year Treasury yields, which move conversely to its price, rose from 2.74% to 2.86% over the quarter. Yields rose early in the quarter, touching a seven-year high in mid-May, as growth and inflation expectations continued, before risk aversion led to a significant pull back.
- The US Federal Reserve (Fed) raised interest rates and kept to its hawkish tone at its June meeting and signalled one further interest rate hike in 2018, (with the risk of two). There is potential for Treasury yields to rise further over the next twelve months. The outlook for US fiscal policy remains a key source of concern for monetary policy makers while significant uncertainty exists about President Trump's legislative program and its timetable.
- In Europe, Italy's debt market proved the most volatile, as Italian 10-year yields increased from 1.79% to 2.68% as the formation of a populist coalition government in May raised concerns over Italy's future relationship with Europe. This uncertainty did have an impact on peripheral Europe, however, German bunds saw high demand for their safe haven status.
- There remains considerable uncertainty around the UK Government's economic outlook and measuring the impact of the eventual departure from the EU remains the main challenge. However, with the labour market at 42-year lows and pay growth accelerating, the Bank of England is unlikely to tolerate above target inflation for too long. Trade wars could increase the demand for safe haven assets in the short term.
- Within the UK, corporate balance sheets remain in relatively good shape and bond default levels are not an issue currently. Concerns are building that spreads (the difference between corporate bond and Gilt yields) have tightened to such a degree that further upside (to price) looks challenging and that the risks are skewed to the downside. With further US rate rises expected in 2018, and possibly in the UK, this only adds to the concern that yields could rise from here. With growing divergence in monetary policy between the US, Europe, Japan and the UK, the cost of hedging overseas holdings is likely to rise because of currency fluctuations, therefore making UK corporate bonds potentially more attractive for Sterling investors.

ALTERNATIVES

- In US dollar terms, hedge fund capital ended the quarter at a new record level for the eighth consecutive quarter with investors reversing strategy flow trends witnessed in the first quarter. Allocation of new capital was given to Equity Hedge strategies whilst being redeemed from Macro strategies. Relative Value Arbitrage and Event Driven strategies also showed small outflows. Returns fell in the range of 1.3% to 8.5% with Emerging

Markets being the poorest and Event Driven being the strongest performers respectively. The strong performance in Technology and Event-Driven strategies was partially offset by trade and tariff volatility which occurred in the latter stages of the quarter. Over the year to date, all funds bar Global Macro demonstrated positive performance in a range of 2.2% to 6.5%. Global Macro had a return of 0.5% over this period.

- Commodity markets gained 7.7% over the quarter, up 27.6% from the same point last year. In general, commodities decreased over the quarter, with the only exception being Crude Oil which saw a 22.3% increase over the quarter, the strongest performing commodity this period. Conversely, agriculture was the worst performing commodity, down 0.5% despite positive returns in the first two months of the quarter.
- Returns from the UK Commercial Property sector remain subdued and the prospects for the future remain uncertain given concerns around demand should the UK experience a hard Brexit, but the asset class has been relatively stable. This stability reflects strong demand from overseas investors for offices in London, attracted by the fall in prices in foreign currency terms. The income on offer remains attractive versus other asset classes. However, the risks are elevated should conditions turn recessionary in the UK and political uncertainty persists.

CONCLUSION

To reiterate what was stated after the previous quarter, it is vitally important to have a sensible investment strategy to drive through the ups and downs of the investment market in such an investment environment. Political risk remains elevated with Brexit and protectionist agendas at the fore. Equity markets and currencies have, and will react to news flow, both positive and negative, but change brings opportunity.

4 INDICES USED IN THIS REPORT

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Overseas Developed	FTSE World (ex UK) Index
North America	FTSE North America Index
Europe (ex UK)	FTSE AW Developed Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets	FTSE All Emerging Index
Frontier Markets	FTSE Frontier 50 Index
Property	IPD UK Quarterly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index (GBP Hedged)
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	IBA GBP LIBOR 7 Day Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling unless stated otherwise.

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CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 30 June 2018.

From an Investment Strategy perspective, the In-House portfolios and the Tactical Allocation Portfolio produced positive returns and outperformed their composite targets. Equity assets achieved a positive return, but underperformed their composite target, and Total Credit and Managed Account Platform had negative returns in absolute and relative terms. Key facts covered in the report are as follows:

- Over the 3 months to 30 June 2018, the Fund's total market value increased by £70.5m to £1,847,751,105.
- Funding level information has not been provided. However liability roll forwards are now based on the discount rate methodology on the CPI basis.
- Over the quarter, total Fund assets returned 3.2% ahead of the composite target which also returned 2.7%.

The benchmarks are reflective of the new strategic weightings, although commitments to Private Credit will take some time to be fully invested.

There was mixed performance amongst the Fund's investment managers in terms of outperforming or underperforming their respective targets during the quarter.

RECOMMENDATIONS	
1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 June 2018.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Investment Strategy and Manager Summary 30 June 2018** Over the 3 months to 30 June 2018, the Fund's total market value increased by £70.5m to £1,847,751,105. Total Fund assets returned 3.2% over the quarter, outperforming the composite target which also returned 2.7%. Over the one year period, Total Fund assets returned 6.7%, compared with a composite target of 6.6%. Over the last three years, Total Fund assets returned 9.9% p.a., compared with a composite target of 8.9% p.a. The strongest absolute returns over the quarter came from the In-House assets and the Equity portfolio. In addition, in relative terms the Tactical Allocation Portfolio also performed well against its benchmark. The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. The largest overweight position is within the LDI portfolio which is being reviewed as part of the wider assessment of the Fund's risk management strategy.
1.02	At this time, there are no concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates. As part of the Funds Strategic Asset Allocation review scheduled for 2019, individual manager mandates will be reviewed. The Fund will need to be conscious of the plans of the Wales Pension Partnership when assessing its investment managers, as the costs of transitioning to new management arrangements ahead of any potential move to the Pool could be significant. This work will take place with the Fund's investment consultant in conjunction with the 2019 Actuarial Valuation.

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.

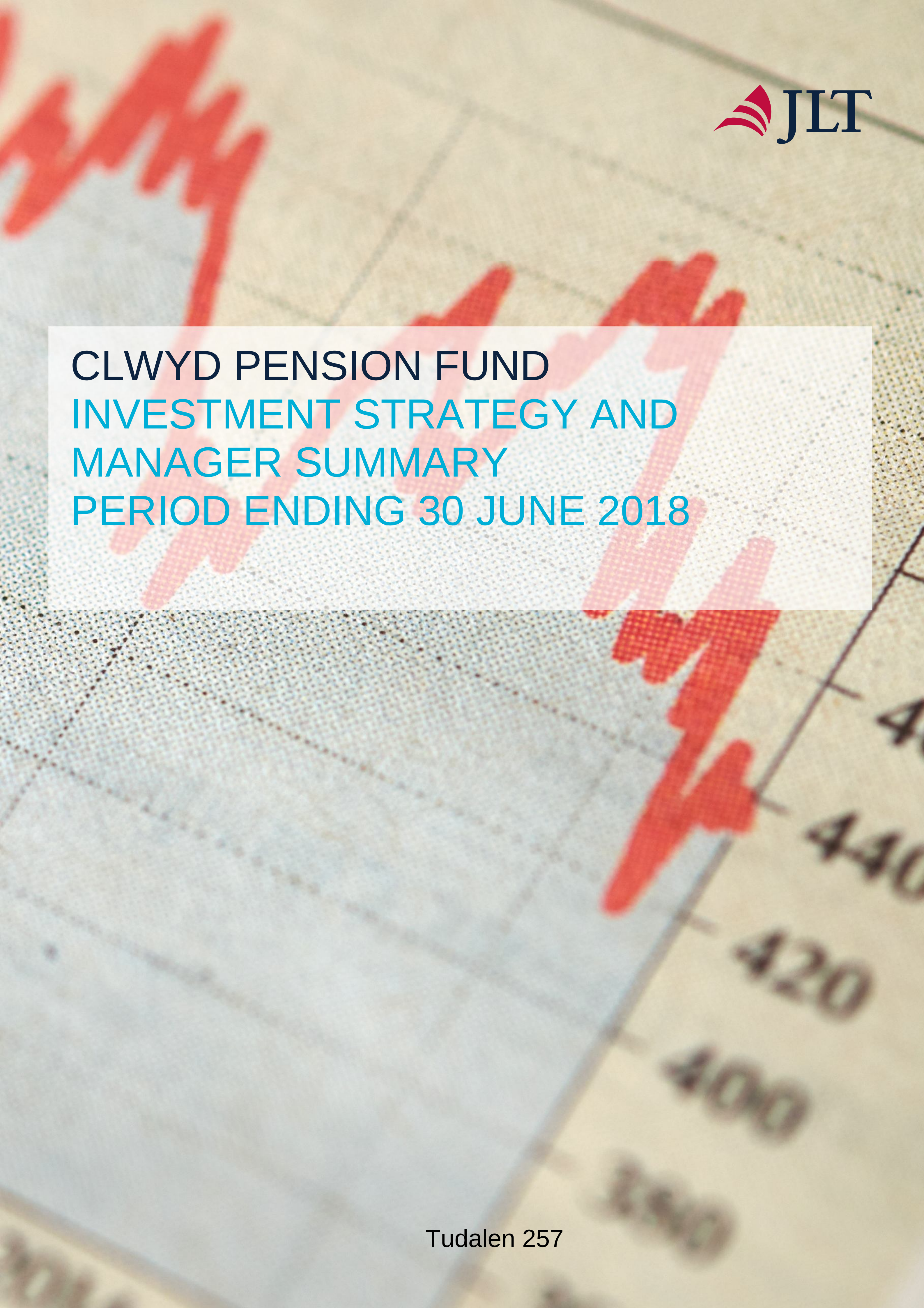
4.00	RISK MANAGEMENT
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.

5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy and Manager Summary 30 June 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Investment Strategy and Manager Summary 31 March 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.

	(d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf



CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 30 JUNE 2018

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1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the "Fund"), and of the Fund as a whole. The report does not comment on the Fund's Liability Driven Investment ("LDI") portfolio, as information in respect of this allocation is produced separately by Mercer.

OVERALL

Over the 3 months to 30 June 2018, the Fund's total market value increased by £70.5m to £1,847,751,105.

Over the quarter, total Fund assets returned 3.2%, ahead of its target by 0.5%, mainly attributable to strong performance generated by the In-House assets and LDI Portfolio. Total Fund (ex LDI) returned 2.1%, compared with its target of 1.7%.

In-House assets returned 5.2% followed by Best Ideas assets, returning 3.4% and Equity assets which rose 2.9%. The Managed Account Platform and Total Credit declined, delivering returns of -0.7% and -1.5%, respectively.

In relative terms, total Fund assets exceeded their target, mainly due to the In-House assets which outperformed its target by 3.7%, contributing 0.8% to total relative performance.

Best Ideas assets outperformed its target by 1.9%, adding 0.2% to total relative performance.

Equities underperformed its target by 0.8% and detracted 0.1% from total relative performance.

Managed Futures and Hedge Funds fell by 1.4% and underperformed its target by 2.4%. This detracted 0.3% from overall relative performance.

Total Credit underperformed its target by 2.0%, returning -1.5% against a target of 0.5% and detracting 0.3% from overall relative performance.

Insight's LDI portfolio rose by 6.8% over the quarter, largely driven by its exposure to equity markets. Overall, the overweight allocation to the LDI portfolio contributed 0.1% to relative performance.

EQUITIES

Global equities recovered from the falls in Q1 2018 despite the continued volatility in the markets, largely due to the monetary tightening policies in the US, trade tensions between US and China and political uncertainty in various regions.

The US Federal Reserve increased interest rates over the second quarter which led to the strengthening of the US dollar and contributed positively to US equity markets. The US-China tensions escalated over the period as Donald Trump gave indications that he may drastically increase the tariffs levied on Chinese imports. Politics also drove returns in both Developed Markets and Emerging Markets. In Emerging Markets, polls in Turkey, Brazil and Mexico triggered negative market reactions whilst in Developed Markets; Italy joined the growing list of countries voting in populist governments.

In Developed Markets, all regions demonstrated positive returns. North America led performance returning 10.0%, followed by the UK which returned 9.2%. Asia Pacific (ex Japan) rose by 4.4% whilst Europe (ex UK) and Japan increased by 3.7% and 3.2%, respectively.

Over the past year, all developed regions witnessed positive returns, led by North America, Japan and the UK with corresponding returns of 12.5%, 9.3% and 9.0%.

Emerging and Frontier Markets declined by 2.4% and 11.9%, respectively, over the quarter. Over the 12 months to 30 June 2018, Emerging Markets gained 5.9% whilst Frontier Markets declined by 1.2%.

Total Equity assets saw returns of 2.9% compared to a composite target of 3.7%. Investec Global Strategic was the only fund to outperform, returning 8.4% against a target of 7.5%. BlackRock ACS World Multifactor posted gains of 7.4%, behind its target by 0.9%. Both Wellington Emerging Markets (Core) and Wellington Emerging Market (Local) declined, posting returns of -2.1% and 3.7% and behind their targets by 0.2% and 2.1%, respectively.

Wellington Emerging Markets (Core) was the only equity fund to have achieved its 3 year target objective.

Global equity exposures to Healthcare and Energy sectors helped returns due to positive stock selection, whilst Financials and Technology detracted. Shares in US group Chemed, climbed to new all-time highs due to continued performance of its hospice care and plumbing businesses. The healthcare holdings also benefited from a rally in UnitedHealth, US healthcare provider, as it delivered strong earnings in the first quarter.

South Africa and South Korea contributed to the majority of gains due to positive stock selection, although this was offset to some extent by asset allocation in Argentina and stock selection in Russia. Manager stock selection added the most within Energy and Healthcare sectors, but this was partially offset by detractors within Consumer Discretionary and Materials.

CREDIT

Global credit markets suffered some bouts of volatility over the quarter; US Treasuries in particular cheapened in April and May as US growth and inflation expectations continued to build, however, this was reversed in the latter part of the quarter amid a flight to quality. Demand for US government debt increased as domestic data remained strong against a challenging geopolitical backdrop, currency volatility and trade tensions. Political uncertainty in Europe including the formation of a populist Italian government resurrected concerns over the stability of the European Union, and a softening of economic data from the Eurozone further fuelled the move into US government debt.

As expected, the US Federal Reserve increased interest rates by 25bps in June whilst the European Central Bank announced that interest rates would not be going up until at least the summer of 2019. The Bank of England (BoE) decision to maintain interest rates at 0.50% in May had a short-term but significant impact on gilt markets. The BoE has since increased the base rate to 0.75% in its August meeting.

Over the quarter, Long Dated Fixed Interest Gilts, Long Dated Index-Linked Gilts and Long Dated UK Corporate Bonds declined by 0.4%, 1.2% and 1.4% respectively. Emerging Market Debt and Global High Yield posted returns of -4.8% and -0.6%, respectively. Global bonds declined 0.3% over the quarter.

Total Credit, which includes an allocation to Private Credit, returned -1.5% over the quarter, behind its target by 2.0% and detracted 0.2% from total relative return.

Investment grade credit detracted, largely due to poor market fundamentals, as higher hedging costs weighed on the market and became a headwind for overseas investors who had become big buyers of corporate bonds.

Within US High Yield, 11 out of 36 industry sectors posted negative returns. Overall, the market has experienced improved credit fundamentals over the course of the year; there were no defaults in June bringing the 12 month default rate to 1.98%. Market fundamentals in European High Yield continued to be weak due to outflows.

In Emerging Market Debt, all regions posted negative total returns; however, Investment Grade outperformed non-Investment Grade securities. Overweight allocations to Argentina, Lebanon and Ukraine were the main detractors from performance over the quarter.

HEDGE FUNDS

Hedge funds posted a small increase in US Dollar terms, as Equity based and Event-Driven strategies were offset by Emerging Market and Global Macro. However, the depreciation of Sterling over the quarter led to a large increase in Hedge Funds of 7.1% over the quarter, as all strategies generated positive returns (in Sterling terms).

Over the 12 months to 30 June 2018, in US Dollar terms all strategies advanced, whilst in Sterling terms, with the exception of Global Macro which returned -0.5%, all strategies increased. Total Hedge Funds over this period returned 5.7% in USD and 4.0% in GBP.

ManFRM's Managed Futures & Hedge Funds strategy declined by -1.4%, behind its target of 1.0% and detracting 0.3% from total relative performance.

ManFRM Hedge Funds (Legacy) which consists of Duet (S.A.R.E.), Liongate and Pioneer (until August 2016) assets generated a return of 15.2%. In June, there was a cash distribution from Liongate of £1,665,610, the value of the holdings sold from the Liongate portfolios was only £841,104, and therefore, this resulted in the increased performance. The cash was then transferred from the ManFRM Hedge Funds (Legacy) portfolio to the ManFRM Managed Futures & Hedge Funds portfolio for investment.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets gained by 0.2% over the quarter, behind its target of 2.1%. Overall, this detracted -0.2% from total relative performance.

Pyrford returned 2.0% compared to a target of 2.3%. Both the fund's equity and bond holdings were in positive territory over the period; equities rallied on the back of strong earnings prospects, rising oil prices and favourable acquisition activities whilst the bond holdings, in particular its US Treasuries positions, added to performance as short-dated bond yields fell. Holdings in overseas bonds further contributed positively due to Sterling weakness. The fund's active currency positions detracted from performance as Sterling fell, however, the fund's unhedged US dollar exposure delivered a small positive return.

Investec generated a return of -1.4% compared to a target of 1.9%. The fund's negative performance over the quarter was driven by its "Growth" and "Defensive" strategies. Within the Growth strategy, falling emerging market momentum, strengthening US dollar and geopolitical events in Brazil, Argentina and Turkey impacted on the fund's emerging vs. developed market equity position. Additionally, fears of trade restrictions negatively impacted the fund's China vs. developed market equity position. Within the fund's Defensive strategy, a strong US dollar and weakening domestic fundamentals dragged on the fund's long exposure to the Japanese Yen. Additionally, an interest rate rise in Canada caused the fund's 10 Year Canadian Bond position to contribute negatively. The Fund's infrastructure basket was the most significant contributor within the uncorrelated strategy

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio rose by 3.4%, ahead of its target by 1.9%. Overall, this added 0.2% to total Fund relative performance. Over the last 12 months, the Best Ideas Portfolio has delivered a return of 7.2% and outperformed its target of UK CPI +3.0% p.a. by 1.7%.

Over the quarter, positive returns were generated by all funds within the Best Ideas Portfolio, with the exception of Investec Emerging Markets Local Currency Debt (-6.3%) and BlackRock Emerging Market Equities (-3.2%). The negative performance of Investec Emerging Markets Local Currency Debt was largely attributable to its positioning in emerging market currencies; particularly the overweight allocation to the Polish zloty, which detracted as the currency fell due to its sensitivity to the falling Euro and slowing Eurozone economic activity.

LGIM Global Real Estate Equities (12.0%) was the best performer, followed by Investec Global Natural Resources and BlackRock US Opportunities which both returned 11.7%. BlackRock Japanese Equities (4.7%) and LGIM

Infrastructure Equities (4.1%) outperformed the CPI +3.0% p.a. target, whilst LGIM North American Equities and BlackRock European Equities (Hedged) posted positive returns of 3.3% and 2.3%, but underperformed the target.

During the quarter, £8,428,000 was redeemed from the Investec EMD Local Fund such that the remaining holdings totalled £10,000,000 and proceeds were invested in BlackRock US Opportunities. Additionally, in order to ensure that any future investments are implemented quickly, it was agreed that cash would be held in the LGIM Sterling Liquidity Fund; consequently an investment of £10,000 was made over the quarter to establish the position.

IN-HOUSE ASSETS

Total In-House assets returned 5.2%, ahead of its composite target by 3.7%. Overall this added 0.8% to total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 4.6% and 5.7%, respectively.

Infrastructure assets were the strongest performers over the quarter, returning 8.3% ahead of its target by 6.9%. This contributed 0.5% to total relative performance.

Private Equity, Opportunistic and Timber/Agriculture assets all exceeded their targets, returning 5.8%, 5.6% and 4.8%, respectively.

Property assets rose by 3.1%, ahead of its target of 2.0%. This made a neutral contribution to performance.

2 STRATEGIC ASSET ALLOCATION
30 JUNE 2018

Allocation by underlying asset class

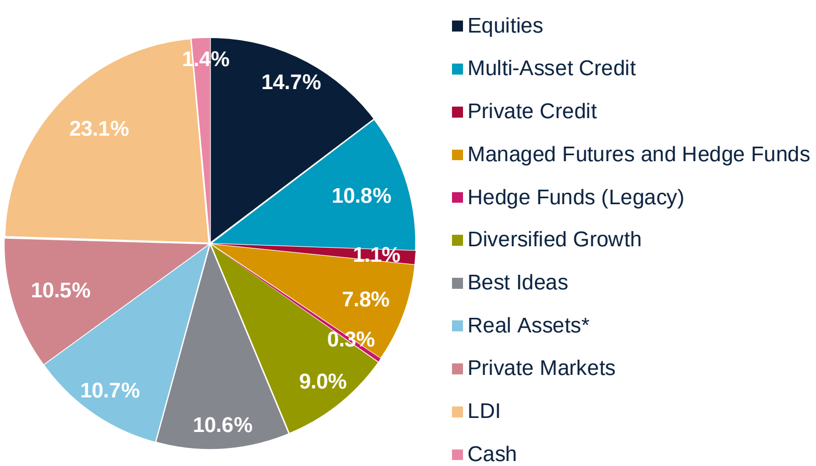
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	152,999,879	8.3	8.0	+0.3	5.0 – 10.0
Emerging Market Equities	118,582,181	6.4	6.0	+0.4	5.0 – 7.5
Multi-Asset Credit	200,345,394	10.8	12.0	-1.2	10.0 – 15.0
Private Credit^	19,901,833	1.1	3.0	-1.9	2.0 – 5.0
Managed Futures and Hedge Funds	144,245,027	7.8	9.0	-1.2	7.0 – 11.0
Hedge Funds (Legacy)*	5,622,367	0.3	0.0	+0.3	–
Diversified Growth	165,878,962	9.0	10.0	-1.0	8.0 – 12.0
Best Ideas	195,199,699	10.6	11.0	-0.4	9.0 – 13.0
Property	116,652,623	6.3	4.0	+2.3	2.0 – 6.0
Infrastructure / Timber / Agriculture	81,240,939	4.4	8.0	-3.6	5.0 – 10.0
Private Equity / Opportunistic	193,610,436	10.5	10.0	+0.5	8.0 – 12.0
LDI & Synthetic Equities	427,193,188	23.1	19.0	+4.1	10.0 – 30.0
Cash	26,278,576	1.4	0.0	+1.4	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,847,751,105**	**100.0**	**100.0**	**0.0**	

Notes: * Hedge Funds (Legacy) include the S.A.R.E (Duet) and Liongate portfolios. ^ The Private Credit allocation is not yet fully funded. Totals may not sum due to rounding.

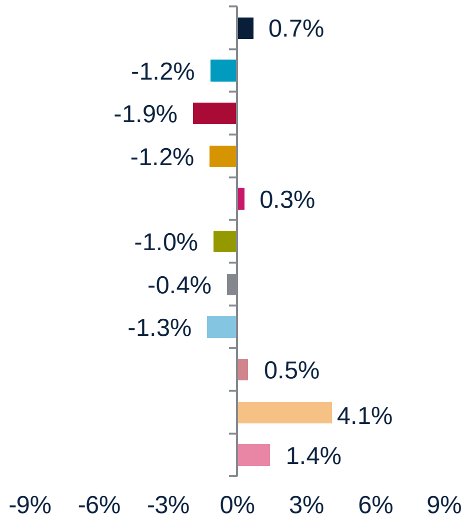
Points to note

- Asset allocation reflects the strategy to be implemented as part of the 2016 Investment Strategy Review; as such a number of asset classes will be underweight for an interim period until the portfolio is fully constructed.
- Total allocation to LDI has increased by 0.6% over the quarter and is 4.1% overweight relative to its strategic allocation.

Strategic Asset Allocation as at 30 June 2018



Deviation from Strategic Allocation



Note: Totals may not sum due to rounding.
* In-House Property, Infrastructure and Timber/Agriculture portfolios.

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3 VALUATION AND ASSET ALLOCATION
AS AT 30 JUNE 2018

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	80,829,879	4.4	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	72,170,000	3.9	4.0	
Wellington	Emerging Markets (Core)#	57,616,911	3.1	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	60,965,270	3.3	3.0	
Total Equity		**271,582,060**	**14.7**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	130,172,077	7.0	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	70,173,317	3.8		
Multi-Asset Credit Portfolio		**200,345,394**	**10.8**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	19,901,833	1.1	3.0	2.0 – 5.0
Private Credit Portfolio		**19,901,833**	**1.1**	**3.0**	**2.0 – 5.0**(1)
Total Credit		**220,247,227**	**11.9**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	144,245,027	7.8	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	5,622,367	0.3	0.0	–
Managed Account Platform		**149,867,394**	**8.1**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	82,354,508	4.5	5.0	8.0 – 12.0
Investec	Diversified Growth	83,524,454	4.5	5.0	
Diversified Growth Portfolio		**165,878,962**	**9.0**	**10.0**	**8.0 – 12.0**
LGIM	North American Equities (Hedged)	25,776,926	1.4	11.0	9.0 – 13.0
BlackRock	US Opportunities	34,070,314	1.8		
BlackRock	European Equities (Hedged)	19,852,187	1.1		
BlackRock	Japanese Equities	20,947,905	1.1		
BlackRock	Emerging Markets Equities	40,251,758	2.2		
Investec	Global Natural Resources	15,343,595	0.8		
LGIM	Infrastructure Equities MFG (Hedged)	14,394,024	0.8		
LGIM	Global Real Estate Equities	14,956,814	0.8		
Investec	Emerging Markets Local Debt	9,596,174	0.5		
LGIM	Sterling Liquidity	10,004	0.0		
Best Ideas Portfolio		**195,199,699**	**10.6**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**361,078,662**	**19.5**	**21.0**	**15.0 – 25.0**
In-House	Property	116,652,623	6.3	4.0	2.0 – 6.0
In-House	Infrastructure	54,320,131	2.9	8.0	5.0 – 10.0
In-House	Timber / Agriculture	26,920,808	1.5		
Real Assets Portfolio		**197,893,562**	**10.7**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	156,534,525	8.5	10.0	8.0 – 12.0
In-House	Opportunistic	37,075,911	2.0		
Private Markets Portfolio		**193,610,436**	**10.5**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**391,503,998**	**21.2**	**22.0**	
Insight	LDI Portfolio	427,193,188	23.1	19.0	10.0 – 30.0
Total Liability Hedging		**427,193,188**	**23.1**	**19.0**	**10.0 – 30.0**
Trustees	Cash	26,278,576	1.4	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,847,751,105**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) valuation includes S.A.R.E (Duet) and Liongate portfolio and is provided by ManFRM.
Wellington Emerging Markets Core and Local valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates. 1 The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY
PERIODS ENDING 30 JUNE 2018

	Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance
			Fund	Target	Fund	Target	Fund	Target	vs Objective
●	Investec	Global Strategic Equity	8.4	7.5	18.3	13.7	16.2	18.7	Target not met
n/a	BlackRock	ACS World Multifactor Equity	7.4	8.3	n/a	n/a	n/a	n/a	n/a
●	Wellington	Emerging Markets (Core)#	-2.1	-1.9	8.8	7.9	13.7	13.5	Target met
●	Wellington	Emerging Markets (Local)#	-3.7	-1.6	6.3	9.0	13.8	14.6	Target not met
Total Equity			**2.9**	**3.7**	**11.1**	**10.3**	**13.8**	**15.7**	
●	Stone Harbor	LIBOR Multi-Strategy	-1.6	0.4	0.3	1.4	1.8	1.4	Target met
n/a	Stone Harbor	Multi-Asset Credit	-2.7	0.4	-0.7	1.4	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**-2.0**	**0.4**	**-0.1**	**1.4**	**1.7**	**1.4**	
n/a	Permira	Credit Solutions III	3.9	1.5	13.3	6.0	n/a	n/a	n/a
Private Credit Portfolio			**3.9**	**1.5**	**13.3**	**6.0**	**n/a**	**n/a**	
Total Credit			**-1.5**	**0.5**	**0.7**	**1.6**	**n/a**	**n/a**	
n/a	ManFRM	Managed Futures & Hedge Funds	-1.4	1.0	4.3	3.9	n/a	n/a	n/a
n/a	ManFRM	Hedge Funds (Legacy)*	15.2	1.1	-6.5	3.9	-12.8	4.8	n/a
Managed Account Platform			**-0.7**	**1.0**	**3.8**	**3.9**	**n/a**	**n/a**	
●	Pyrford	Global Total Return	2.0	2.3	-0.5	8.0	3.9	7.6	Target not met
●	Investec	Diversified Growth	-1.4	1.9	-2.4	7.1	1.7	6.7	Target not met
Total Diversified Growth			**0.2**	**2.1**	**-1.5**	**7.6**	**2.8**	**7.1**	
Best Ideas Portfolio			**3.4**	**1.5**	**7.2**	**5.5**	**7.8**	**5.0**	
Tactical Allocation Portfolio			**1.9**	**1.5**	**3.0**	**5.5**	**5.3**	**5.0**	
●	In-House	Property	3.1	2.0	7.1	10.3	8.2	8.1	Target met
●	In-House	Infrastructure	8.3	1.4	9.2	5.4	17.4	5.5	Target met
●	In-House	Timber / Agriculture	4.8	1.4	-0.9	5.4	7.2	5.5	Target met
Real Assets			**4.6**	**1.6**	**6.3**	**7.0**	**9.6**	**4.0**	
●	In-House	Private Equity	5.8	1.4	11.3	5.4	14.6	5.5	Target met
●	In-House	Opportunistic	5.6	1.4	19.8	5.4	1.1	5.5	Target not met
Private Markets Portfolio			**5.7**	**1.4**	**12.6**	**5.4**	**12.8**	**5.5**	
Total In-House Assets			**5.2**	**1.5**	**9.4**	**6.3**	**11.2**	**6.0**	
n/a	Insight	LDI Portfolio	6.8	6.8	9.1	9.1	19.3	19.3	n/a
Total (ex LDI)			**2.1**	**1.7**	**6.0**	**6.0**	**7.1**	**6.7**	
TOTAL CLWYD PENSION FUND			**3.2**	**2.7**	**6.7**	**6.6**	**9.9**	**8.9**	
Strategic Target (CPI +4.1%)			**1.6**		**6.2**		**6.2**		
Actuarial Target (CPI +2.0%)			**1.0**		**4.1**		**4.1**		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.
* ManFRM Hedge Funds (Legacy) currently includes the Duet (S.A.R.E) and Liongate portfolios.
# Wellington Emerging Markets Core and Wellington Emerging Markets Local data has been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.
Strategic and Actuarial targets derived from the latest JLT Market Forecast Group assumptions (Q1 2018 forecasts based on conditions at 31 December 2017). Current long term 10 year CPI assumption is 2.1% p.a.

● Fund has met or exceeded its performance target ● Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 30 JUNE 2018

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**2.9**	**11.1**	**13.8**
Composite Objective	3.7	10.3	15.7
Composite Benchmark	3.4	8.5	13.6
Multi-Asset Credit Portfolio	**-2.0**	**-0.1**	**1.7**
Objective	0.4	1.4	1.4
Benchmark	0.1	0.4	0.4
Managed Account Platform	**-0.7**	**3.8**	**n/a**
Objective	1.0	3.9	n/a
Benchmark	1.0	3.9	n/a
Total Hedge Funds (Legacy)	**15.2**	**-6.5**	**-12.8**
Composite Objective	1.1	3.9	4.8
Composite Benchmark	1.1	3.9	4.8
Total Diversified Growth	**0.2**	**-1.5**	**2.8**
Composite Objective	2.1	7.6	7.1
Composite Benchmark	2.1	7.6	7.1
Best Ideas Portfolio	**3.4**	**7.2**	**7.8**
Objective	1.5	5.5	5.0
Benchmark	1.5	5.5	5.0
Total In-House Assets	**5.2**	**9.4**	**11.2**
Composite Objective	1.5	6.3	6.0
Composite Benchmark	1.5	6.3	6.0
Total LDI Portfolio	**6.8**	**9.1**	**19.3**
Composite Objective	6.8	9.1	19.3
Composite Benchmark	6.8	9.1	19.3
Total (ex LDI)	**2.1**	**5.9**	**7.1**
Composite Objective	1.7	6.0	6.7
Composite Benchmark	1.6	5.5	6.2
Total Clwyd Pension Fund	**3.2**	**6.7**	**9.9**
Composite Objective	2.7	6.6	8.9
Composite Benchmark	2.6	6.2	8.4

Source: Performance is calculated by JLT Employee Benefits based on data provided by the managers and is only shown for complete periods of investment.

Note: Objective performance includes the funds' outperformance targets above the relevant underlying benchmarks, as shown in the Appendix.
Benchmark performance is based on the underlying benchmarks without the explicit outperformance targets for the relevant funds within the Equity and Multi-Asset Credit portfolios.

6 SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Developed Equities	MSCI AC World NDR Index +2.5% p.a.	4.0%
BlackRock	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Index	4.0%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
Total Equity			**Composite Weighted Index**	**14.0%**
Stone Harbor	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.[1]	12.0%
Stone Harbor	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
Permira	Credit Solutions III	Private Credit	Absolute Return 6.0% p.a.	3.0%
Total Credit Portfolio			**Composite Weighted Index**	**15.0%**[4]
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0%[3]
Managed Account Platform			**3 Month LIBOR Index +3.5% p.a.**	**9.0%**
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a.[2]	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
Tactical Allocation Portfolio			**UK Consumer Price Index +3.0% p.a.**	**21.0%**
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD UK Monthly Property Index[5]	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In-House			**Composite Weighted Index**	**22.0%**
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging			**Composite Liabilities & Synthetic Equity**	**19.0%**

Notes: 1 FTSE A Gilts All Stocks Index until 31 March 2014. 2 UK Retail Price Index +4.4% p.a. until 31 March 2015. 3 Strategic Allocation represents the composite benchmark for the Managed Account Platform. 4 Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a. 5. The IPD Quarterly Property Index has been used to calculate the performance between 31 December 2017 and 30 June 2018.

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Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5th September 2018
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Members should note that:

- On a consistent basis the estimated funding position at the end of July is 92% which is around 12% ahead of the expected position from the 2016 actuarial valuation. However, there still remains uncertainty regarding future inflation and investment return expectations.

- The level of hedging remains at 20% for interest rate and 40% for inflation at 31 July 2018.

- No triggers have been breached since the interest rate triggers were re-structured in September 2017. Mercer recommended no change to the interest rate trigger levels of part of the flightpath healthcheck.

- The LDI restructure completed in March 2017 was expected to achieve a net long-term gain of c. £36.5m over 50 years via a relative value trade. A £25m "soft trigger" was set in the original agreement which was to be used to identify when it would be considered appropriate to realise the gain early. Mercer identified that the soft trigger had been breached and recommended that the trade was closed out. This was on the basis that c.70% of the expected gain had been achieved in the first 18 months and was therefore significantly ahead of the expected time period. The current gain is market sensitive and there have been changes in external factors which increased the risks of the gains being lost or reduced. Insight have been instructed to close out the position and realise the gain. As at 31 July 2018, this was c. £28.8m, of which £18.6m can be realised immediately. The final realised gain will be assessed once all transactions are completed.

- The new dynamic equity protection strategy was implemented on 24 May 2018. As at 31 July 2018, the dynamic protection strategy had returned £9m or 2.5% since inception of the strategy. The Fund is protected from falls in equity markets of 19% or more from current levels. More detail is provided separately in the Mercer report in Appendix 1.

- Due to the further positive performance of the flightpath framework since its implementation and the closing out of the relative value trade, Mercer has indicated that there is an opportunity to release £100m in cash from the

	collateral holding to potentially invest in other assets. Crucially, releasing this cash will not impact on the overall risk management profile of the flightpath strategy as all exposures to underlying returns and triggers will remain the same. Officers are working with Mercer and JLT to identify a suitable investment for this additional cash and will update Committee on their findings in due course.

RECOMMENDATIONS	
1	That the Committee note the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
2	That the Committee note the LDI strategy is in the process of being restructured again in order to crystallise the positive mark-to-market gain.
3	That the Committee note that the Officers are working with their advisors in order to identify possible areas to invest the £100m cash that can be released due to the overall positive performance of the flightpath framework.

REPORT DETAILS

1.00	**FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE**
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 31 July 2018 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a “traffic light” of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 92% with a deficit of £155m at 31 July 2018 which is 12% ahead of the expected position when measured relative to the 2016 valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by 4% to 88% with a corresponding increase in deficit of £94m to £249m.
1.03	None of the interest rate triggers have been breached since they were re-structured in September 2017.
1.04	The level of hedging was around 20% for interest rates and 40% for inflation at 31 July 2018. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.

1.05	Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as “green” meaning it is operating in line within the tolerances set by our strategic risk advisors. An amber rating remains on the Libor plus fund due to the temporary limit on future investments into the fund. This should not affect the operation of the mandate but it will be kept under watch. There is also an amber rating relating to the collateral position and the potential for £100m to be released from the strategy (see section 1.08).
1.06	***Update on Risk Management framework*** (i) Restructuring the Insight Portfolio As reported previously, in 2017 Insight and Mercer identified an opportunity to restructure Insight’s mandate to be more efficient for the Fund. This involved buying assets with a higher yield/return and selling an equivalent asset with a lower yield/return, known as a relative value trade. The net long-term gain achieved would be £36.5m over the lifetime of the c.50 year trade (made up of a total gain of £38m minus transaction costs of £1.5m). The Fund’s hedge ratios remained at 20% for interest rates and 40% for inflation. This £36.5m gain over the lifetime of the trade can be split into two parts: a) Locking into a lower inflation rate has an expected value of £10.2m over the 50 year period b) The relative value trade has an expected lifetime value of £26.3m Whilst the gain is expected over a 50 year period, the relative value trade experiences changes to its value as markets vary. Put simply, if markets fall relative to the yield the Fund has locked-in, then the Fund’s position is more valuable than the current market and the Fund can sell the relative value position for a profit. This value is monitored on a monthly basis to see if a gain can be crystallised earlier if market conditions allow. A soft trigger of an overall gain of £25m for the restructure was imposed. The value of the relative value trade was £18.6m as at the end of July 2018, and when combined with the £10.2m gain from locking in a lower inflation rate, the overall gain is £28.8m which is above the soft trigger. As part of the healthcheck of the flightpath mandate, Mercer advised that given c.70% of the 50 year expected gains had been achieved in c.18 months, now was an opportune time to close out the trade and lock-in the gains as there was a risk that markets would reverse and the accelerated gains would be lost. Closing the trade out now also removes the risk of being forced to unwind the trade in the future at a time when the market value is potentially negative, for example due to external factors to do with pooling or changes in the regulatory regime. The Officers were in agreement that gains should be “banked” and the relative value trade exited as soon as possible. This change has no impact of the level of hedging or the expected return on the portfolio. Critically, closing out this gain does not impact on the risk profile of the flightpath.

	The £18.6m gain of the relative value trade would be realised immediately, whilst the £10.2m gain from locking in a lower inflation rate would be accrued over a 50 year period. These immediate gains can be used to invest elsewhere in the portfolio along with the further release of collateral as noted in this report. Insight have started the process of unwinding the trade, with completion expected by mid-September. The final realised gain will be assessed once all transactions are completed.
1.07	(ii) Dynamic equity protection implementation and progress It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use of Equity Options should be implemented. This was to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets which is currently prevalent given the long period of strong equity returns that we have seen. Importantly over the longer-term the increased security allows the Actuary to include less prudence in the Actuarial Valuation assumptions; this would translate into lower deficit contributions at the 2019 valuation whilst maintaining equity exposure supports a lower cost of accrual that under traditional de-risking methods. This will be quantified in the 2018 interim review. The Fund's static protection structure (akin to an insurance policy) ended on 23rd May 2018 and the new long term, dynamic equity protection strategy was implemented on 24th May 2018. As a reminder, a dynamic strategy, even though relatively more complex to set up, addresses some of the key issues with a static strategy where protection is fixed or static for a given time period. Namely, in upward trending markets, the dynamic strategy ensures that the protection remains at 15% below the average market level in the preceding 12 months. As markets have trended upwards, the current market position is 4% higher than the 12 month average market position. That means that the strategy provides protection from falls of 19% or more from the current market position. Further, it was decided that the downside protection should be financed through giving up a portion of potential upside participation. That is, the Fund participates in the first 5% of market rises on a monthly basis but is then capped for rises above 5% over a month. The Fund will receive premium if equity market returns are 5% or less on a monthly basis. Whilst some of the upside return is capped there is still the potential to achieve a return of up to 60% a year if markets rose steadily (i.e. 5% each month for a year) hence giving the Fund access to material equity upside whilst providing downside protection (to reduce deficit recovery costs). As at 31 July 2018, the dynamic protection strategy had returned c. £9m or 2.5% since inception of the strategy. Relative to investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £0.9m or -0.25% since inception. The majority of this

	underperformance is due to paying for protection; however this has been partially offset due to collecting premium through selling upside so the net cost of the protection is reduced. The protection will be monitored on an ongoing basis and the committee papers have been updated as part of the reporting in Appendix 1.
1.08	(iii) Collateral position Due to the positive performance of the framework since its implementation, Mercer indicated that there is an opportunity to release cash collateral from the Insight strategy to invest in higher returning assets. Mercer have calculated, and Insight have confirmed, that £100m (inclusive of the gain of unwinding the relative value trade) can be released from the strategy whilst still supporting the current positions and maintaining the flightpath strategy. This still leaves sufficient collateral in the event of market moves or in the event of any triggers being hit in line with the agreed guidelines. The Officers with the advice of JLT and Mercer are considering proposals on where best to redeploy this cash and the Committee will be updated in due course.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report but significant resources was taken for officers and advisors to implement the changes in a short timescale.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None required

4.00	**RISK MANAGEMENT**
4.01	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): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only.

5.00	**APPENDICES**
5.01	Appendix 1 - Monthly monitoring report – July 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(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. (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. (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. (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **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. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1.

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

August 2018

Paul Middleman FIA

OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

EXECUTIVE SUMMARY

= as per or above expectations = to be kept under review = action required

Tudalen 279

Overall funding position

- Ahead of existing recovery plan
- Funding level below the first soft trigger

In absolute terms the funding position is c.12% ahead of target. However there is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.

Liability hedging mandate

- Insight in compliance with investment guidelines
- Performed in line with the benchmark over Q1
- Hedge ratios marginally below target levels

No action required.

Synthetic equity mandate

- JP Morgan in compliance with investment guidelines
- Portfolio of total return swaps was sold during Q2 2018
- Dynamic equity protection structure now in place

The equity TRS mandate was closed out in May 2018, and the equity protection overlay was replaced with a new dynamic strategy.

Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.25% rise in interest rates and fall in inflation, in combination with a 35% fall in equity markets and a 0.5% increase in z-spreads without eliminating all collateral

Collateral adequacy to be monitored quarterly. Potential to release collateral and this is being assessed based on the agreed collateral guidelines.

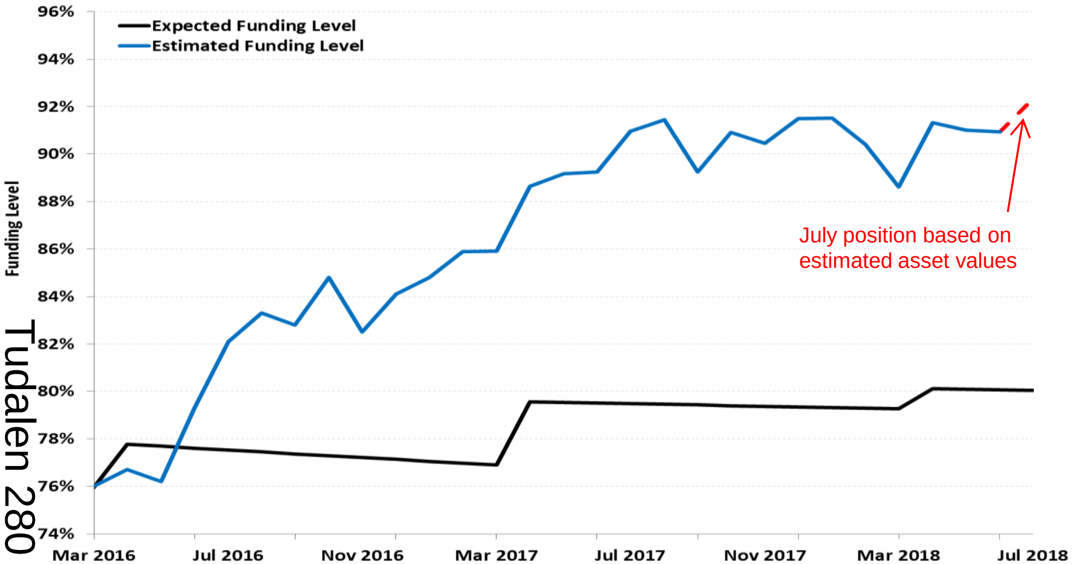
LIBOR Plus Fund

- Fund has underperformed its target over the quarter, but outperformed since inception
- Management team stable and no change in manager rating
- Allocation of £55m remains appropriate

No action required. Insight have placed a temporary limit on future investments into the Fund at any weekly dealing point - to be kept under review.

FUNDING LEVEL MONITORING TO 31 JULY 2018

Estimated funding position since 31 March 2016



The positions from April 2018 onwards have been adjusted to reflect the actual 2018 revaluation/pension increase awarded. Where applicable the above funding positions will be updated to allow for the results of the 2018 Interim Review once completed.

Funding Level Triggers

It was concluded at the FRMG on 20 June 2017 that the funding level is not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a “soft” trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 31 July 2018 was around 80%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 30 June 2018. The **red line** shows the progression of the estimated funding level over July 2018. At 31 July 2018, we estimate the funding level and deficit to be:

92% (£155m*)

This shows that the Fund’s position was ahead of the expected funding level at 31 July 2018 by around 12% on the current funding basis.

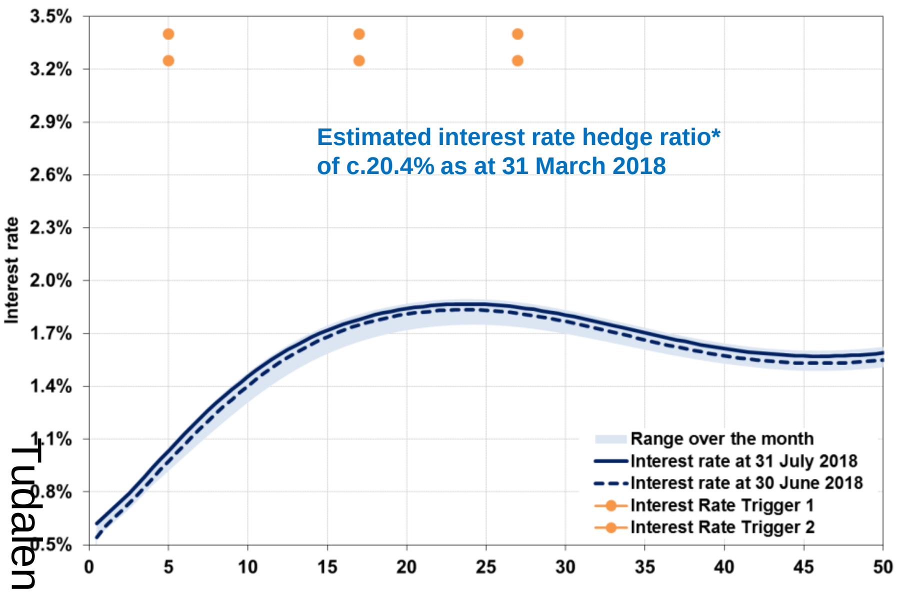
Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.88% with a corresponding increase in deficit of £94m to £249m.

This will be kept under review in light of changing market conditions.

**Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 30 June 2018 to 31 July 2018. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a monthly basis.*

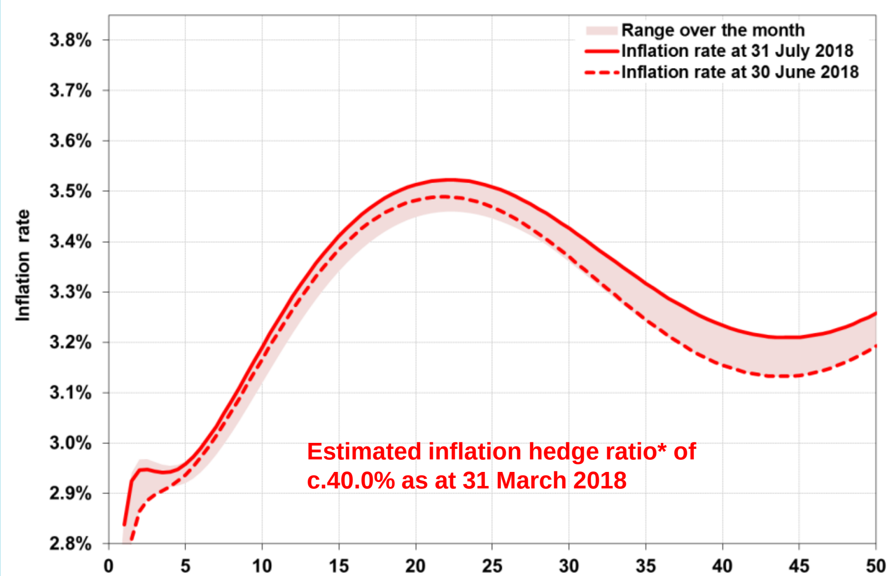
UPDATE ON MARKET CONDITIONS AND TRIGGERS

Change in interest rates



Date	Band 1	Band 2	Band 3	Band 4	Actual
31 March 2018	20.0%	20.0%	20.0%	20.0%	20.0%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
31 March 2018	40.0%	40.0%	40.0%	40.0%	40.0%

Comments

Interest rates rose fairly uniformly across the curve over July 2018, with average increases of c.0.05% observed.

Based on market conditions as at 31 July 2018, yields would need to rise by c.1.4% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in September 2017.

Comments

Inflation expectations rose at all durations over the month, particularly at the shortest and longest durations. The average increase observed was c.0.05%.

It has been agreed that Insight will not resume monitoring of the level of inflation hedging until the interest rate and inflation hedge ratios have been aligned.

** Hedge ratios calculated with reference to 2016 valuation cashflow analysis and relying on a discount rate of gilts + 2.0% p.a..*

UPDATE ON RELATIVE VALUE TRADE

Mark-to-market value of trade since inception

Note: no allowance made for yield improvement from the inflation trade (c.£10.2m over lifetime of the trade)

Comments

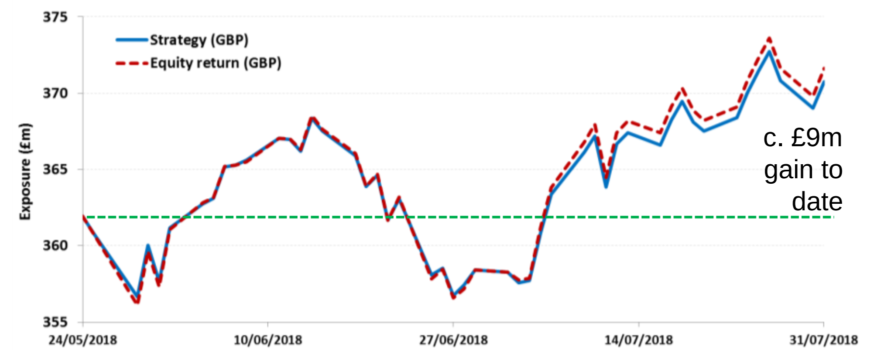
Insight estimated the potential net gain of the LDI restructure - implemented in Q1 2017 – would be c.£36.5m if held to maturity (c. 50 years). This gain would be accrued incrementally over the lifetime of the trade, assuming repo and swap funding costs offset one another.

The relative value trade (i.e. holding gilts and “selling” interest rate swaps) will experience a mark-to-market gain if the difference between gilt and swap yields (“z-spread”) falls over time. The mark-to-market gain rose by c.£1.6m over the month as z-spreads fell across the curve over July 2018. The estimated gain was c.£18.6m as at 31 July 2018. In addition to this, a further c. £10.2m gain will be generated over the lifetime of the trade due to the yield pick up from holding gilt inflation relative to swap inflation, resulting in a total gain of £28.8m.

For risk management reasons and that c. 70% of the expected gain has been realised in 18 months, it has been agreed that the Fund will close out of the trade in the near future in order to crystallise this gain, and release collateral to be reinvested into other areas of the portfolio. We have provided separate advice in relation to this and are continuing to liaise with Insight regarding the logistics of exiting the trade.

UPDATE ON EQUITY PROTECTION MANDATE

Strategy versus equity index



GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	3.68%	(0.24%)	0.02%	(0.02%)	**3.44%**	**(0.24%)**
YTD	2.68%	(0.24%)	0.05%	(0.04%)	**2.44%**	**(0.24%)**

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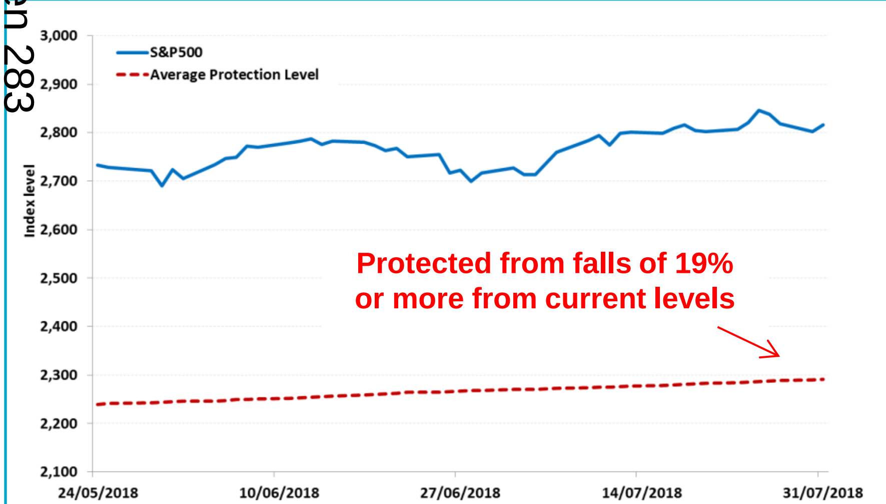
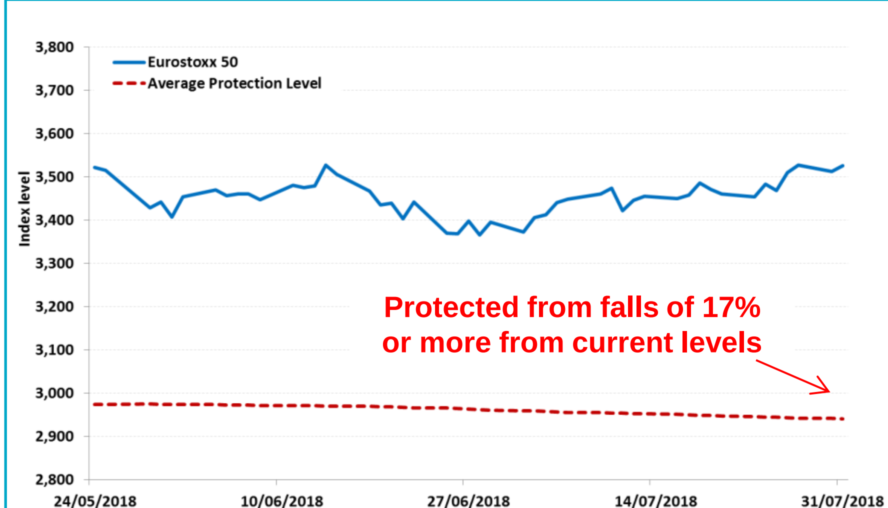
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. As at 31 July 2018, the value of the synthetic equity exposure had risen by £9m to £371m.
- Relative to investing in passive equities (with no costs), the strategy has underperformed by c. £0.9m since inception.
- The majority of this underperformance is due to the return drag from paying for hedging and the market being c.19% from the protection levels. If markets fall by this amount of more, the protection will kick in.
- This was partially offset due to collecting premium through selling upside, known as the financing return.
- The strategy rolls daily and therefore the protection changes over time to react to market changes.

US equity exposure



European equity exposure



GLOSSARY

- Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determining 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.
- Collateral – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- Counterparty – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- Deficit - The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- Dynamic protection strategy – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.
- Flightpath - A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.
- Funding level - The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.
- Funding & Risk Management Group (FRMG) - A subgroup of Pension Fund officers and advisers set up to discuss and implement 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.
- Hedging - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- Hedge ratio – The level of hedging in place in the range from 0% to 100%.
- Insight QIF (Insight Qualified Investor Fund) – An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.
- London Interbank Offer Rate (LIBOR) - An interest rate at which banks can borrow funds from other banks in the London interbank market.
- Z-spread – The difference between the yield on gilts and swaps.

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