

CLWYD PENSION FUND ACCOUNTS

for the year ended 31st March 2017

THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. The administration and investment strategy of the Fund is set annually by the Clwyd Pension Fund Committee, consisting of eight elected Members and one employee representative, each with equal voting rights, access to training and to information. The Fund's core investment management arrangements were implemented by eight investment managers during 2016/17.

The Clwyd Pension Fund is a statutory Local Government Pension Scheme (LGPS), set up to provide death and retirement benefits for local government employees, other than teachers, police and firefighters in North East Wales. In addition, other qualifying bodies that provide similar services to that of local authorities have been admitted to membership of the LGPS and hence the Fund.

The Clwyd Pension Fund operates a defined benefit scheme whereby retirement benefits are funded by contributions and investment earnings. 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 2017. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are also prescribed nationally by the 2013 Regulations (as amended). 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 15 year period from April 2017. This implies an average employer contribution rate of 15.3% and a total initial recovery payment of approximately £51.5m (which also includes allowance for some employers to phase in any increases and allowance for some employers to prepay three years contributions in April 2017). The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to produce and maintain an Investment Strategy Statement which documents how the investment strategy for the fund is determined and implemented. The 2016 Regulations replaced the LGPS (Management and Investment of Funds) Regulations 2009 (as amended) and came into force on 1st November 2016.

Membership of the LGPS is voluntary and 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 contractors undertaking a local authority function following outsourcing to the private sector.

The membership of the Fund as at 31st March 2017 and 2016 is shown below:

	2017	2016
	No.	No.
Active Members	15,748	15,989
Pensioners & Survivors		
Ex employees	10,314	9,862
Survivors	1,671	1,616
Other		
Preserved benefits/ Undecided	14,502	13,176
Frozen Refund	1,177	1,022
	<u>43,412</u>	<u>41,665</u>

CLWYD PENSION FUND ACCOUNTS

The scheduled bodies which contributed to the Fund during 2016/17 are:

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

The admitted bodies contributing to the Fund are:-

Other: Careers Wales, Cartref y Dyffryn Ceiriog, Chartwells, Bodelwyddan Castle Trust, Civica UK, Denbigh Youth Group, Wrexham Commercial Services, Freedom Leisure, Glyndwr Students' Union, Embrace, Cymrhyd Rhan, Grosvenor Ltd.

Further information is available in the Clwyd Pension Fund Annual Report and Investment Strategy Statement which are presented to the Annual Joint Consultative Meeting for employers and member representatives that is held annually.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year end as at 31st March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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) 19 basis, is disclosed at Note 16 of these accounts.

In summary, accounting policies adopted are detailed as follows:

- Contributions, benefits and investment income due are included on an accruals basis.
- Investments are included in the accounts at market value, usually bid price.
- Debtors and creditors are raised for all amounts outstanding at 31st March.
- Individual Transfer values received and paid out have been accounted for on a cash basis.
- Bulk Transfer values paid out are accounted for on an accruals basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.
- 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.
- Administration expenses are 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.
- Acquisition costs of investments include all direct transaction costs and sales receipts are net of all direct transaction costs.
- 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.

CLWYD PENSION FUND ACCOUNTS

			2017		2016	
	Note	£000	£000	£000	£000	£000
Contributions and Benefits						
Contributions receivable :						
From employers (Normal)	1	(32,257)			(30,488)	
From employers (Deficit)	1	(28,562)			(27,277)	
From employees or members	1	<u>(14,429)</u>			<u>(14,471)</u>	
			(75,248)			(72,236)
Transfers in		(2,797)			(1,691)	
Other income		<u>(1,191)</u>			<u>(3,077)</u>	
			<u>(3,988)</u>			<u>(4,768)</u>
				(79,236)		(77,004)
Benefits payable :						
Pensions	1	54,744			52,922	
Lump sums (retirement)	1	10,413			14,029	
Lump sums (death grants)	1	<u>1,560</u>			<u>2,247</u>	
			66,717			69,198
Payments to and on account of leavers :						
Refunds of contributions		106			121	
Transfers out (individual)		5,212			1,936	
Transfers out (bulk)	2	0			3,889	
Other		268			129	
Expenses borne by the scheme	3	<u>17,475</u>			<u>17,621</u>	
			<u>23,061</u>			<u>23,696</u>
				89,778		92,894
NET (ADDITIONS) WITHDRAWALS				<u>10,542</u>		<u>15,890</u>
Returns on Investments						
Investment income	5		(7,432)		(5,863)	
Change in market value of investments (Realised and Unrealised) [(Increase)/Decrease]	5		(310,601)		4,706	
NET RETURNS ON INVESTMENT				<u>(318,033)</u>		<u>(1,157)</u>
NET DECREASE/(INCREASE) IN THE FUND				<u>(307,491)</u>		<u>14,733</u>
OPENING NET ASSETS OF THE SCHEME				<u>1,380,675</u>		<u>1,395,408</u>
CLOSING NET ASSETS OF THE SCHEME				<u>1,688,166</u>		<u>1,380,675</u>

CLWYD PENSION FUND ACCOUNTS

	Note	2017 £000		2016 £000
Net Assets Statement				
Investment Assets :	5/6			
Fixed Interest Securities		198,621		170,331
Managed overseas equity funds		237,485		202,826
Managed multi strategy funds		349,095		227,037
Property funds		114,714		109,233
Infrastructure funds		31,761		27,351
Timberland / Agricultural funds		29,103		25,937
Private equity funds		152,423		139,582
Hedge Fund		127,279		139,221
Liability Driven Investment		393,858		315,530
Opportunistic Funds		17,966		8,240
		<u>1,652,305</u>		<u>1,365,288</u>
Cash	8	33,623		15,034
			33,623	15,034
Current Assets :				
Due within 1 year	9	4,545		5,349
			4,545	5,349
Current liabilities				
Due within 1 year	9	(2,307)		(4,996)
			(2,307)	(4,996)
NET ASSETS AT 31st MARCH		<u>1,688,166</u>		<u>1,380,675</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

1. ANALYSIS OF CONTRIBUTIONS RECEIVABLE/BENEFITS PAYABLE

Contributions represent those amounts receivable from various employing authorities in respect of their own contributions and those of eligible pensionable employees. The total contributions received during 2016/17 amounted to £60.819m (£57.765m in 2015/16) from employers and £14.429m (£14.471m in 2015/16) from employees.

The employers total comprised an amount of £32.257m (£30.488m in 2015/16) relating to the common contribution rate average of 13.8% paid by all employers and £28.562m (£27.277m in 2015/16) relating to additional contributions paid in respect of deficit funding for individual employers.

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

Analysis of contributions received and benefits payable is shown below:

	2017		2016	
	Benefits Payable	Contributions Receivable	Benefits Payable	Contributions Receivable
Scheduled Bodies	£000	£000	£000	£000
Flintshire County Council	25,206	26,434	23,903	25,215
Wrexham County Borough Council	20,009	22,778	21,199	22,438
Denbighshire County Council	14,442	18,230	16,632	17,525
Fund apportionment with:				
Gwynedd and Powys County Councils	2,202	0	2,317	0
Educational Organisations	2,967	4,490	3,191	4,215
Town and Community Councils	251	292	124	298
Others - scheduled bodies	734	1,670	888	1,478
Others - admitted bodies	906	1,354	944	1,067
	66,717	75,248	69,198	72,236

The above merely reflects the figures in the accounts. The circumstances pertaining to each of the bodies listed is different for a variety of reasons (contribution and pensioner profiles, employees' contribution rates, early retirement experience etc.) and direct comparisons, therefore, are largely meaningless.

2. BULK TRANSFER

No bulk transfers were made during 2016/17.

3. EXPENSES BOURNE BY THE FUND

The regulations permit the Council to charge the cost of administering the scheme to the Fund. The external managers' fees have been accounted for on the basis contained within their management agreement.

The cost of pension administration and investment management is shown in the following table. The main increase in oversight and governance expenses relates to additional costs incurred as a result of the formation of the Wales Pension Partnership. Other elements include a light-touch review and implementation of the Fund's investment strategy. The consultancy fees also reflect the ongoing monitoring of the Long Term Management of Funding Risk mandate together with a review of the funding risk management framework.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	2017	2016
	£000	£000
Oversight & Governance		
Employee Costs	236	225
Support Services	26	31
Supplies and Services	58	54
Miscellaneous Income	(11)	0
Consultancy & Actuarial	1,226	818
Audit	39	39
Legal	59	35
	1,633	1,202
Investment Management Fees		
Net Fund Management Fees	14,386	14,971
Custody Fees	31	28
Performance Monitoring Fees	57	30
	14,474	15,029
Administration Costs		
Employee Costs	648	603
Support Services	94	146
Outsourcing	260	404
Supplies & Services	366	237
	1,368	1,390
Total Fees	17,475	17,621

Investment management fees are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The Fund is invested in pooled vehicles of which the majority of fees are charged within the funds. The 2014/15 CIPFA guidance required pension funds to include all investment manager fees including those which are deducted at source to fund of fund investments. In addition to the underlying fees the guidance also required Funds to include transaction costs (which were previously included in a narrative note only).

The CIPFA guidance was revised in 2015/16 and clarified the position with regards to underlying fees, invoking the accounting principle of control. The guidance clarifies that Funds should only include fees where they have a direct relationship with the investment manager, meaning that underlying fees should not be included within the Management Expenses total. This information remains disclosable within the Fund's Annual Report.

The Fund Management Fees shown overleaf show the fees for 2016/17 and 2015/16. Total expenses include Annual Management Charges from Fund Managers and also any additional costs such as operational, administrative and legal costs.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	2017	2016
	£000	£000
Fund Management Fees		
Core		
Total Expenses including AMC	4,495	5,578
Performance Fees	0	219
Transaction Fees	83	105
Non-Core		
Total Expenses including AMC	6,648	6,132
Performance Fees	2,976	2,557
Transaction Fees	184	380
	14,386	14,971

Non-Core refers to Property, Infrastructure, Private Equity, Opportunistic and Timber and Agriculture investments.

Total fees as a percentage of the net asset value of the fund was 0.87% for 2016/17 (1.09% 2015/16).

4. INVESTMENTS AND PERFORMANCE

Further details on the investment strategy are available in the Investment Strategy Statement which can be obtained from the Clwyd Pension Fund Manager, County Hall, Mold, CH7 6NA (Web site www.clwydpensionfund.org.uk or Telephone 01352 702264).

The Council uses the investment performance services of JLT Consultants. Their report for the financial year 2016/17 showed that the Fund achieved an overall return of 21.5% from its investments (-0.1% in 2015/16). This compares with the Fund's benchmark return of +16.7% (+1.4% 2015/16) for the year.

5. ANALYSIS OF TRANSACTIONS AND RETURN ON INVESTMENTS

Overview

The Fund invests its surplus monies in assets through a wide range of managers. All these main investments are through pooled vehicles where the Fund is one of many investors and where these pooled monies are invested on a common basis although, in the Fund's alternative assets, there are a couple of quoted holdings. Generally, however, the Fund has no direct holdings of equities, bonds, properties, private equity companies, commodities or other financial instruments.

Transactions and Return on Investments

Details of the 2016/17 investment transactions and the net profit on sales of £64.203m (£4.840m in 2015/16) together with investment income of £7.432m (£5.863m in 2015/16) are set out below. The unrealised profit for 2016/17, because of the change in the market value of investments, amounted to £246.398m (£9.546m loss in 2015/16). Therefore, the increase in market value of investments (realised and unrealised) is £310.601m (£4.706m decrease in 2015/16).

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2015/16 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2016/17 £000	Investment Income £000
Fixed Interest Securities	170,331	80,140	(63,140)	2,151	9,139	198,621	0
Liability Driven Investment	315,530	0	(80,000)	41,386	116,942	393,858	0
Overseas Equities Active	202,826	29	(30,126)	3,238	61,518	237,485	0
Multi Strategy	227,037	87,518	0	0	34,540	349,095	0
Property	109,233	7,968	(10,774)	2,875	5,412	114,714	2,501
Infrastructure	27,351	2,281	(5,227)	727	6,629	31,761	1,584
Timber & Agriculture	25,937	219	(1,632)	0	4,579	29,103	0
Private Equity	139,582	24,770	(37,149)	14,135	11,085	152,423	2,537
Opportunistic	8,240	8,520	(446)	332	1,320	17,966	699
Hedge Fund	139,221	0	0	0	(11,942)	127,279	0
	1,365,288	211,445	(228,494)	64,844	239,222	1,652,305	7,321
Cash	15,034	0	0	0	0	33,623	38
Fees within Pooled Vehicles	0	0	0	0	7,176	0	0
Interest	0	0	0	0	0	0	73
Currency	0	0	0	(641)	0	0	0
	15,034	0	0	(641)	7,176	33,623	111
Total 2016/17	1,380,322	211,445	(228,494)	64,203	246,398	1,685,928	7,432
2015/16	1,392,365	432,832	(398,421)	4,840	(9,546)	1,380,322	5,863

	Market Value 2014/15 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2015/16 £000	Investment Income £000
Fixed Interest Securities	172,749	0	0	0	(2,418)	170,331	0
Liability Driven Investment	329,101	0	0	0	(13,571)	315,530	0
Overseas Equities Active	247,289	19,909	(50,115)	995	(15,252)	202,826	0
Multi Strategy	205,260	179,620	(148,422)	4,103	(13,524)	227,037	0
Property	103,522	7,192	(10,544)	1,663	7,400	109,233	2,741
Infrastructure	34,128	78	(10,509)	12	3,642	27,351	1,125
Timber & Agriculture	26,207	782	(2,306)	0	1,254	25,937	94
Commodities	24,962	0	(25,703)	(12,246)	12,987	0	0
Private Equity	142,808	21,935	(40,980)	9,669	6,150	139,582	1,644
Opportunistic	9,998	4,036	(496)	93	(5,391)	8,240	201
Hedge Fund	48,750	199,280	(109,346)	692	(155)	139,221	0
	1,344,774	432,832	(398,421)	4,981	(18,878)	1,365,288	5,805
Cash	47,591	0	0	0	0	15,034	0
Fees within Pooled Vehicles	0	0	0	0	9,332	0	0
Interest	0	0	0	0	0	0	58
Currency	0	0	0	(141)	0	0	0
	47,591	0	0	(141)	9,332	15,034	58
Total 2015/16	1,392,365	432,832	(398,421)	4,840	(9,546)	1,380,322	5,863
2014/15	1,212,810	142,377	(149,070)	57,213	127,416	1,392,365	5,345

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

6. MARKET VALUE OF INVESTMENTS (EXCLUDING CASH AND FUTURES)

The book cost of the investments as at 31st March 2017 is £1,171.084m (£1,123.290m in 2015/16). The market value of investments as at 31st March 2017 is £1,652.305m (£1,365.288m in 2015/16); this can be analysed as follows:

By Continent

The UK holdings as at 31st March 2017 account for 31% of total investments at market value:

	2017 £000	2016 £000
UK	519,585	429,081
Europe	105,514	103,471
North America	114,726	93,321
Emerging/ Frontier markets	106,336	104,121
Global Investments	806,144	635,294
	1,652,305	1,365,288

By Fund Manager

	2017 £000	%	2016 £000	%
Wellington	106,336	6	77,877	6
Aberdeen	0	0	26,244	2
Insight	393,858	24	315,530	23
Investec	214,023	13	155,632	11
Stone Harbor	198,621	12	170,331	12
Pyrford	82,747	5	60,992	5
Man FRM	127,279	8	139,221	10
Consultant "Best Ideas"	183,474	11	109,118	8
Property	114,714	7	109,233	8
Infrastructure	31,761	2	27,351	2
Timber / Agriculture	29,103	2	25,937	2
Private Equity	152,423	9	139,582	10
Opportunistic	17,966	1	8,240	1
	1,652,305	100	1,365,288	100

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

By Listed /Managed

	2016			2015		
	Listed Managed £000	Listed £000	Unlisted £000	Listed Managed £000	Listed £000	Unlisted £000
Fixed Interest Securities	0	0	170,331	0	0	172,749
Overseas Equities	202,826	0	0	196,990	0	50,299
Multi Strategy	227,037	0	0	205,260	0	0
Property	38,988	0	70,245	36,018	0	67,504
Infrastructure	0	11,417	15,934	0	6,712	27,416
Timber / Agriculture	0	0	25,937	0	0	26,207
Commodities	0	0	0	0	0	24,962
Private Equity	0	1,998	137,584	0	1,969	140,839
Hedge Fund	0	0	139,221	21,977	0	26,773
Opportunistic	0	0	8,240	0	0	9,998
Liability Driven Investment	315,530	0	0	329,101	0	0
	<u>784,381</u>	<u>13,415</u>	<u>567,492</u>	<u>789,346</u>	<u>8,681</u>	<u>546,747</u>
			<u>1,365,288</u>			<u>1,344,774</u>

	2017			2016		
	Listed Managed £000	Listed £000	Unlisted £000	Listed Managed £000	Listed £000	Unlisted £000
Fixed Interest Securities	0	0	198,621	0	0	170,331
Overseas Equities	237,485	0	0	202,826	0	0
Multi Strategy	349,095	0	0	227,037	0	0
Property	39,919	0	74,795	38,988	0	70,245
Infrastructure	0	13,043	18,718	0	11,417	15,934
Timber / Agriculture	0	0	29,103	0	0	25,937
Private Equity	0	1,013	151,410	0	1,998	137,584
Hedge Fund	0	0	127,279	0	0	139,221
Opportunistic	0	0	17,966	0	0	8,240
Liability Driven Investment	393,858	0	0	315,530	0	0
	<u>1,020,357</u>	<u>14,056</u>	<u>617,892</u>	<u>784,381</u>	<u>13,415</u>	<u>567,492</u>
			<u>1,652,305</u>			<u>1,365,288</u>

7. FAIR VALUE OF INVESTMENTS

Financial Instruments

Whilst the Fund invests almost exclusively through pooled vehicles, the managers of these vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). It is effectively a trading activity to generate income rather than an investment. The Fund has no direct exposure to stock lending.

Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31st March 2017 on the following bases.

- UK and overseas listed securities are valued within the respective pooled vehicles using the official bid prices quoted on the relevant stock exchange. Overseas holdings are converted to sterling at an exchange rate quoted at close of business on 31st March 2017.
- Unit trusts are valued at the bid market price.
- Other pooled vehicles are valued at the bid point of the latest process quoted by their respective managers or fund administrators at 31st March 2017. Where a bid price is not available the assets are priced at the net asset value provided.
- Property funds are valued at the bid market price, which is based upon regular independent valuation of the pooled vehicles' underlying property holdings.
- Private equity holdings are interests in limited partnerships. It is important to recognise the highly subjective nature of determining the fair value of these investments. They are inherently based on forward looking estimates and judgments involving many factors. These holdings are valued based upon the Fund's share of the net assets of the partnership according to the latest financial statements published by the respective managers. Where these valuations are not at the Fund's balance sheet date, the valuations are adjusted having due regard to the latest dealings, asset values and other financial information available at the time of preparing these statements in order to reflect the Fund's balance sheet date. The managers' valuation statements are prepared in accordance with the European Private Equity and Venture Capital Association (EVCA) Guidelines, net of carried interest. These incorporate the US-based FAS157 protocol on valuation approaches –
 - Market – uses prices and other relevant data generated by market transactions involving identical or comparable assets/liabilities (e.g. money multiples)
 - Income – uses valuation techniques to convert expected future amounts to a single present amount (discounted cash flows or earnings)
 - Cost – based upon the amount that currently would be required to replace the service capacity of an asset (adjusted for obsolescence)

Managers are required “to use the method that is appropriate in the circumstances and for which sufficient data is used and to apply the approach consistently until no longer appropriate.” It is also possible to use multiple or combinations of approaches. Most private equity managers use a combination of the “market” and “income” approaches.

- Infrastructure investments are generally carried at the lower of cost and fair value, except where there are specific upward or downward valuations. In estimating fair value, managers use their judgment, having regard to the EVCA guidelines noted above for valuing unquoted investments. Upward valuations are considered only where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted regardless of the investment stage where the manager considers that there is impairment to the underlying investment.
- Timberland investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by underlying managers or vehicles. In circumstances where audited financial statements are not available to 31st March, the valuations are derived from unaudited quarterly reports from the underlying managers or vehicles. Where the timber investments are direct rather than through underlying managers, valuations are based upon regular independent valuation of these holdings.
- Hedge funds are valued monthly to create a net asset value on the basis of the Fund's proportionate share of the value of underlying pools on a manager by manager basis. Generally the fair value of the Fund's investment in a related pool represents the amount that the Fund could be reasonably expected to receive from the pool if the Fund's

investment was redeemed at the date of valuation, based upon information reasonably available at the time that the valuation was made and that the fund believes to be reliable.

- Diversified Growth and Multi Strategy funds invest for the most part in markets that are not exchange-based. These include OTC or “interdealer” markets and leverage is utilised by such funds to a significant level. If market prices are not available or do not reflect current market prices, the Fund applies its own pricing policies by reference to such relevant prices as are available to establish a fair value for the assets held.

Sensitivity of Assets Valued at Level 3

The valuation methods described above are likely to be accurate within varying ranges dependent on the asset concerned. An indication of the possible impact of these fluctuations on the closing value of the investments is shown in the following table.

	Assessed Valuation Range (+/-)	Market Value 2016/17 Level 3 £000	Value on Increase £000	Value on Decrease £000
Liability Driven Investment	10%	12,768	14,045	11,491
Property	10%	74,795	82,275	67,316
Infrastructure	10%	18,718	20,590	16,846
Timber & Agriculture	10%	29,103	32,013	26,193
Private Equity	15%	151,410	174,122	128,699
Hedge Fund	10%	9,634	10,597	8,671
Opportunistic Funds	10%	17,966	19,763	16,169
		<u>314,394</u>	<u>353,405</u>	<u>275,385</u>

Fair Value – Hierarchy

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and unit trusts. Listed investments are shown at bid price.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would be unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgment in determining appropriate assumption.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The following tables show the position of the Fund's assets at 31st March 2017 and 31st March 2016 based upon this hierarchy.

	Market Value 2016/17 £000	Level 1 £000	Level 2 £000	Level 3 £000
Fixed Interest Securities	198,621	0	198,621	0
Liability Driven Investment	393,858	18,137	362,953	12,768
Overseas Equities Active	237,485	234,467	3,018	0
Multi Strategy	349,095	82,747	266,348	0
Property (1)	114,714	0	39,919	74,795
Infrastructure (1)	31,761	13,043	0	18,718
Timber & Agriculture (1)	29,103	0	0	29,103
Private Equity (2)	152,423	1,013	0	151,410
Hedge Fund	127,279	3,554	114,091	9,634
Opportunistic Funds (2)	17,966	0	0	17,966
	1,652,305	352,961	984,950	314,394
Cash	33,623	33,623	0	0
Total 2016/17	1,685,928	386,584	984,950	314,394

(1) Property/ Infrastructure/ Timber and Agriculture - Various valuation bases are used. Direct fund holdings are valued based upon independent valuations, these have been classified as level 2, and some funds also often hold joint venture and partnership interests that are subject to a variety of valuation methodologies. To be conservative, these funds have been classified Level 3 unless the fund itself is quoted.

(2) Private Equity and Opportunistic Funds - Various valuation bases are used including cost, quoted prices (often discounted for "lock-ups"), transaction multiples, market multiples, future realisation proceeds, company prospects, third party opinion etc. Company and fund valuations often reflect combinations of these valuation bases. To be conservative, all funds have been classified Level 3 unless the fund itself is quoted.

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; £331.911m compared to £296.928m in 2015/16. These are valued at a fair value by the fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgment, and due to the subjectivity and variability of these valuations there is an increased likelihood that the valuations included in the financial statements would not be realised in the event of a sale. The difference could be materially lower or higher.

	Market Value 2015/16 £000	Level 1 £000	Level 2 £000	Level 3 £000
Fixed Interest Securities	170,331	0	170,331	0
Liability Driven Investment	315,530	0	0	315,530
Overseas Equities Active	202,826	60,073	142,753	0
Multi Strategy	227,037	170,110	56,927	0
Property (1)	109,233	0	38,988	70,245
Infrastructure (1)	27,351	11,417	0	15,934
Timber & Agriculture (1)	25,937	0	0	25,937
Private Equity (2)	139,582	1,998	0	137,584
Hedge Fund	139,221	3,889	127,319	8,013
Opportunistic Funds (2)	8,240	0	0	8,240
	1,365,288	247,487	536,318	581,483
Cash	15,034	15,034	0	0
Total 2015/16	1,380,322	262,521	536,318	581,483

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

8. INVESTMENT RISKS

As demonstrated, the Fund maintains positions in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity products. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Procedures for Managing Risk

The principal powers to invest are contained in the LGPS (Management and Investment of Funds) Regulations 2016, effective from 1st November 2016, and which require administering authorities to formulate an Investment Strategy Statement (ISS) in accordance with guidance issued by the Secretary of State. This replaces the requirement to produce and maintain a Statement of Investment Practice. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Fund will annually review its ISS and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. The ISS and FSS are on the Fund's website (www.clwydpensionfund.org.uk).

The Fund carries out a formal review of its structure at least every 4 years, usually every 3 years. The last full review was carried out in 2014 at which the Fund's Consultants, JLT Group determined that the resulting asset mix coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of 7.2% with a volatility of around 11%. A light-touch review was undertaken during 2016 that reduced the long-term expected annual return to 6.5% taking account of changes in long-term market trends but also the Government's guidance on infrastructure investment by increasing the Fund's exposure from 2% to 8% over the medium term. A key element in this review process was the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- private equity – by stage, geography and vintage where funds of funds are not used
- property – by type, risk profile, geography and vintage (on closed-ended funds)
- infrastructure – by type (primary/secondary), geography and vintage
- hedge funds – bespoke funds via a managed account platform

The Fund invests in a Long Term Management of Risk mandate. The strategy provides a framework to enable the Fund to effectively reduce risk when market conditions become more favourable (i.e. bonds become cheaper). The framework includes both market yield based triggers. In particular, the manager makes use of Liability Driven Investment (LDI) techniques to increase the level of hedging within the Fund. This is achieved through the physical purchase of gilts along with repurchase agreements (repo). These allow the fund to gain unfunded exposure to gilts. The manager also replicates the Fund's developed passive equity allocation using Equity Total Return Swaps (TRS). During 2016/17 the Fund's Committee approved a review of the Flightpath framework to improve its efficiency to the long term benefit of the Fund and this was completed on 3rd March with an expected net gain of £36.5m over the term of the bonds held. It was also agreed in principle to implement 'equity options' to protect against the impact on employer contributions of material falls in the equity element of the current mandate and take the opportunity to update the interest rate and inflation triggers and potential actions within the flightpath structure if the funding position improves further. The outcome of this review is currently being implemented.

Roll risk

The LDI manager has the facility to use repurchase agreements, once these agreements mature, they need to be replaced with other contracts to maintain the relevant exposure (known as "rolling" the contract). This involves managing the operational risks raised to ensure sufficient resources are in place to arrange the trades and manage the process. In addition, as a contract matures, the underlying market for repo may become illiquid and at the extreme, the manager may not be able to roll the position. This is mitigated by structuring the overall repo over a range of maturity dates and diversifying counterparty exposure.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Manager Risk

The Fund is also well diversified by manager with no single manager managing more than 24% of Fund assets. On appointment fund managers are delegated the power through an investment management agreement to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. A formal annual update is required from each manager to discuss their mandates and their performance on them; on-going performance management is also undertaken. There are slightly different arrangements for some of the alternative assets. On private equity, property, infrastructure and timber/agriculture, investment is fund rather than manager-specific, with specific funds selected by the in-house team after careful due diligence. These commitments are smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above, almost all the Fund's investment are through pooled vehicles and a number of these are involved in derivative trades of various sorts, including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties.

However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk. Once appointed, managers are required to provide copies of their annual internal control reports for review to ensure that the expected standards are maintained.

Deposits are not made with banks and financial institutions unless they are rated independently.

Subject to cash flow requirements, cash can be deposited in one of the following:

- The Pension Fund bank account with the National Westminster Bank for daily liquidity
- A National Westminster deposit account with access up to 180 days' notice.
- A Money Market AAA Fund for unexpected liquidity requirements or higher rates of return.

The Fund believes it has managed its exposure to credit risk and has no experience of default or uncollectible deposits in the last three financial years. The Fund's cash holdings as at 31st March 2017 were £33.623m (£15.034m at 31st March 2016). This was held as follows:

	Rating	2017 £000	2016 £000
Money Market Funds			
BlackRock	AAA	0	0
Bank of New York Mellon	AAA	20,000	1,395
Bank Deposit Accounts			
National Westminster Bank PLC	BBB+	13,603	13,619
Bank Current Accounts			
National Westminster Bank PLC	BBB+	20	20
		33,623	15,034

Within the Fund, the areas of focus in terms of credit risk are bonds and some of the alternative asset categories.

- The Fund's bond portfolio is managed on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2017, the Fund's exposure to non-investment grade paper was £93.453m or 46.9% of the fixed interest portfolio (36.5% at 31st March 2016).
- On private equity and infrastructure the Fund's investments are almost entirely in the equity of the companies concerned.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Liquidity Risk

The Pension Fund has its own bank account. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered. Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential and undertaken regularly by the Fund.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities (including synthetic equity exposure) and bonds now comprise 50.2% of the Fund's total value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

On alternative assets the position is more mixed. Whilst there are a couple of quoted vehicles here, most are subject to their own liquidity terms or, in the case of property, redemption rules. Closed-ended funds such as most private equity vehicles and some property and infrastructure funds are effectively illiquid for the specified fund period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

The table below analyses the value of the Fund's investments at 31st March 2017 by liquidity profile.

	Market Value 2016/17 £000	1 Month £000	2 - 3 Months £000	3 - 6 Months £000	6 - 12 Months £000	Closed - ended £000	Locked £000
Fixed Interest Securities	198,621	198,621	0	0	0	0	0
Liability Driven Investment	393,858	393,858	0	0	0	0	0
Overseas Equities Active	237,485	237,485	0	0	0	0	0
Multi Strategy	349,095	349,095	0	0	0	0	0
Property	114,714	0	39,919	0	0	74,795	0
Infrastructure	31,761	13,043	0	0	0	18,718	0
Timber & Agriculture	29,103	0	0	0	0	29,103	0
Private Equity	152,423	1,013	0	0	0	151,410	0
Hedge Fund	127,279	101,836	15,809	0	0	0	9,634
Opportunistic Funds	17,966	0	0	0	0	17,966	0
	1,652,305	1,294,951	55,728	0	0	291,992	9,634

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach was applied and all such investments have been designated "within 2-3 months".

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4).

In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw-downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 1997 to 2017. This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation.

As can be seen from the table, even using the conservative basis outlined above, around 78% of the portfolio is realisable within 1 month.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments and the consequential danger that its assets will fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term.

Market risk is comprised of two elements:

- The risks associated with volatility in the performance of the asset class itself (beta);
- The risks associated with the ability of managers, where allowed, to move away from index weights and to generate alpha, thereby offsetting beta risk by exceeding market performance.

The following table sets out an analysis of the Fund's market risk positions at 31st March 2017 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark and managers' maximum target volatility (or risk) against index in achieving this. This expected risk is based on 10 year historic returns and volatility.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Manager	Market Value 2016/17 £000	Benchmark	Target (Net)	Risk (<) %
Fixed Interest Securities	Stone Harbor	198,621	1 Month LIBOR	+1.0%	6.0
Liability Driven Investment	Insight	393,858	Liability / FTSE	Match	21.0
Foreign equities-active	Investec	131,149	MSCI AC World NDR	+2.5%	14.0
	Wellington	106,336	MSCI EM Free	+1.5%	21.0
Multi strategy funds	Custodian "Best Ideas"	183,474	UK CPI	+3.0%	9.0
	Investec	82,874	UK CPI	+4.6%	9.0
	Pyrford	82,747	RPI	+4.5%	9.0
Hedge Fund	Man FRM	127,279	3 Month LIBOR	+3.5%	6.0
Property funds	Various	114,714	IPD Balanced PUTs	Exceed	5.0
Infrastructure funds	Various	31,761	3 Month LIBOR	+5.0%	10.0
Timber /Agricultural funds	Various	29,103	3 Month LIBOR	+5.0%	10.0
Private equity funds	Various	152,423	3 Month LIBOR	+5.0%	28.0
Opportunistic funds	Various	17,966	3 Month LIBOR	+5.0%	28.0
		1,652,305			

The risks associated with volatility in market values are mainly managed through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Fund also adopts a specific strategic benchmark (details are in the Fund's ISS) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions, there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation model, is designed to diversify and minimise risk for a specific level of performance through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current strategic 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 – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects. On property and private equity, fund and manager diversification is vital and, whilst a full list of investments is not detailed here, the Fund has exposures as follows:

	Market Value 2017 £000	Managers No.	Funds No.	Properties / Companies Estimated No.
Real Assets	175,578	25	41	>280
Private Equity / Opportunistic	170,389	25	70	>4,000

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result 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 is monitored by the fund to ensure it is within limits specified in the fund's investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's Investment Consultant, JLT Group, the fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period:

Asset Type	Potential Market Movements
	(+ / -)
Overseas Equity	11.36%
Fixed Interest Securities	3.20%
Liability Driven Investing	16.76%
Pooled Multi Strategy	5.58%
Hedge Fund	5.67%
Alternatives	4.99%
Property	3.15%
Cash	0.01%

The sensitivities are consistent with the assumptions provided by the JLT Group based on historic data collated for the Fund. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Had the market price of the Fund's investments increased / decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (prior year comparator also provided).

Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2016/17	%	£000	£000
Cash and cash equivalents	33,623	0.01	33,626	33,620
Investment portfolio assets:-				
Global Equity inc UK				
Overseas Equity	237,485	11.36	264,456	210,514
Fixed Interest Securities	198,621	3.20	204,980	192,262
Liability Driven Investing	393,858	16.76	459,885	327,831
Pooled Multi Strategy	349,095	5.58	368,588	329,602
Hedge Fund	127,279	5.67	134,494	120,064
Alternatives	231,253	4.99	242,787	219,719
Property	114,714	3.15	118,324	111,104
	1,685,928		1,827,140	1,544,716

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Asset Type	Market Value 2015/16	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	15,034	0.01	15,036	15,032
Investment portfolio assets:-				
Global Equity inc UK	98,705	7.31	105,920	91,490
Overseas Equity	104,121	10.35	114,898	93,344
Fixed Interest Securities	170,331	4.03	177,195	163,467
Liability Driven Investing	315,530	13.12	356,928	274,132
Pooled Multi Strategy	227,037	5.67	239,910	214,164
Alternatives	340,331	2.51	348,873	331,789
Property	109,233	2.49	111,953	106,513
	<u>1,380,322</u>		<u>1,470,713</u>	<u>1,289,931</u>

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments 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 Fund recognises that interest rates can vary and affect both the income to the fund and the net assets available to pay benefits. The Fund's Fixed Income manager has advised that rates may rise by 61 basis points (bps) over the next year. As the fund does not use Fixed Income securities to provide income, the following sensitivity analysis only refers to cash and cash balances.

Asset Type	Carrying Value 2016/17 £000	Change in year in net assets available to pay benefits +61BPS £000	-61BPS £000
Cash and cash equivalents	20,000	122	(122)
Cash balances	13,623	83	(83)
	<u>33,623</u>	<u>205</u>	<u>(205)</u>

Asset Type	Carrying Value 2015/16 £000	Change in year in net assets available to pay benefits +25BPS £000	-25BPS £000
Cash and cash equivalents	1,395	3	(3)
Cash balances	13,639	34	(34)
	<u>15,034</u>	<u>37</u>	<u>(37)</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 on financial instruments that are denominated in any other currency other than the functional currency of the Fund (GBP). The Fund holds assets denominated in currencies other than GBP.

The following table summarises the Fund's currency exposure as at 31st March 2017 and as at the previous year end:

Currency Exposure - Asset Type	Market Value	Market Value
	2016/17	2015/16
	£000	£000
Fixed Interest Securities	198,621	170,331
Overseas Equities Active	237,485	202,826
Multi Strategy	349,095	227,037
Hedge Funds	127,279	139,221
Property	30,952	32,056
Infrastructure	15,203	12,441
Timber / Agriculture	29,103	25,937
Opportunistic	14,632	8,240
Private Equity	130,350	118,118
	1,132,720	936,207

Following analysis of the historical data in consultation with the fund's Investment Consultants, JLT Group, and analysis of the exposures to foreign currency for the year to 31st March 2017, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.95%. For the period to 31st March 2016, this was calculated to be 5.85%.

This analysis assumes that all other variables, in particular interest rates, remain constant. These individual year percentages strengthening/ weakening against the various currencies in which the fund hold investments would increase/ decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2016/17	%	£000	£000
Fixed Interest Securities	198,621	5.95	210,434	186,808
Overseas Equity - Active	237,485	5.95	251,609	223,361
Multi Strategy	349,095	5.95	369,857	328,333
Hedge Fund	127,279	5.95	134,849	119,709
Timber & Agriculture	29,103	5.95	30,834	27,372
Infrastructure	15,203	5.95	16,107	14,299
Property	30,952	5.95	32,793	29,111
Opportunistic	14,632	5.95	15,502	13,762
Private Equity	130,350	5.95	138,102	122,598
	1,132,720		1,200,087	1,065,353

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Currency Exposure - Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2015/16	%	£000	£000
Fixed Interest Securities	170,331	5.85	180,288	160,374
Overseas Equity - Active	202,826	5.85	214,682	190,970
Multi Strategy	227,037	5.85	240,309	213,765
Hedge Fund	139,221	5.85	147,359	131,083
Timber & Agriculture	25,937	5.85	27,453	24,421
Infrastructure	12,441	5.85	13,168	11,714
Property	32,056	5.85	33,930	30,182
Opportunistic	8,240	5.85	8,722	7,758
Private Equity	118,118	5.85	125,022	111,214
	<u>936,207</u>		<u>990,933</u>	<u>881,481</u>

9. RECEIVABLES/PAYABLES

	2017		2016	
	£000	£000	£000	£000
Current Assets :				
Contributions due - Employees	1,129		1,109	
Contributions due - Employers	2,572		2,394	
Added years	38		30	
H.M. Revenue and Customs	12		13	
Pension strain	544		1,635	
Administering authority	0		0	
Miscellaneous	250		168	
	<u>4,545</u>		<u>5,349</u>	
Less Current Liabilities :				
Contributions	(7)		(6)	
Lump sums	(1,079)		(3,324)	
Death grants	(180)		(755)	
Administering authority	(418)		(284)	
Added years	(90)		(195)	
H.M. Revenue and Customs	(2)		(5)	
Miscellaneous	(531)		(427)	
	<u>(2,307)</u>		<u>(4,996)</u>	
Net Current Assets		<u>2,238</u>		<u>353</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Analysis of receivables	2017	2016
	£000	£000
Central Government Bodies	12	13
Other Local Authorities	3,935	4,868
Other Entities and Individuals	598	468
	<u>4,545</u>	<u>5,349</u>
Analysis of payables	2017	2016
	£000	£000
Central Government Bodies	(3)	(5)
Other Local Authorities	(508)	(468)
Other Entities and Individuals	(1,796)	(4,523)
	<u>(2,307)</u>	<u>(4,996)</u>

10. MATERIAL TRANSACTIONS

The Fund undertakes a review of fund management arrangements every three or four years. A light-touch review was undertaken during 2016/17 and the following table details the changes which were completed during 2016/17. Some subscriptions and redemptions were staggered through 2016/17, details are shown below.

2016/17		Allocation		Redemption/ Subscription	
Manager	Mandate	Initial	Final	Initial	Final
Redemptions/ Change in Allocations					
Aberdeen	Frontier Market Equities	2.5%	0.0%	Nov-16	Jan-17
Stone Harbor	Multi-Asset Credit	15.0%	12.0%	N/A	N/A
Wellington	Emerging Market Equity	6.5%	6.0%	N/A	N/A
Subscriptions					
Consultant	"Best Ideas" Portfolio	9.0%	11.0%	N/A	Feb-17

11. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2017. Since this date, the performance of the global equity markets may affect the financial value of pension fund investments. This movement does not affect the ability of the Fund to pay its pensioners.

12. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

In accordance with Regulations of 4(1)b of The Pension Scheme (Management and Investment of Funds) Regulations 2016, a market value or an estimate thereof has not been included for the money purchase AVC investments. These assets are specifically allocated to the provision of additional benefits for particular members. The Clwyd Pension Fund has the services of two AVC providers (Prudential and Equitable Life) for members' additional benefits with the funds being invested in a range of investment products including fixed interest, equity, cash, deposit, property and socially responsible funds, as follows :-

Contributions paid	£	807,023
Units purchased	No.	120,657
Units sold	No.	95,008
Market value as at 31st March 2017	£	4,960,248
Market value as at 31st March 2016	£	4,609,979

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

13. RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2017, two Members of the Clwyd Pension Fund Committee have 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.

Key Management Personnel

The key management personnel of the fund are the Flintshire County Council Chief Executive and the Corporate Finance Manager (S151 Officer). Total remuneration payable to key management personnel for 2016/17 and 2015/16 is set out below for their time apportioned to the Fund.

	2017	2016
	£000	£000
Short-term benefits	16.7	16.8
Post-employment benefits	0.2	0.1
	16.9	16.9

Flintshire County Council

In the course of fulfilling its role as administering authority to the Fund, Flintshire County Council provided services to the Fund for which it charged £1.004m (£1.296m in 2015/16). These costs are in respect of those staff employed in ensuring the pension service is delivered, and other costs such as payroll and information technology. The costs are included in the accounts within oversight and governance, and administration expenses (see note 3). At the year end, a net balance of £0.408m was owing to Flintshire in relation to creditors payments made on behalf of the fund (£0.284m in 2015/16).

14. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2017, the Fund has contractual commitments of £672.4m (£681.2m in 2015/16) in private equity infrastructure, timber and agriculture and property funds, of which £517.3m (£473.6m in 2015/16) has been deployed, leaving an outstanding commitment of £155.0m (£207.6m in 2015/16).

15. AGENCY ACCOUNTING

The Clwyd Pension Fund pays discretionary awards to the former employees of former and current Unitary Authorities, Town and Community Councils and Educational Organisations. The amounts are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

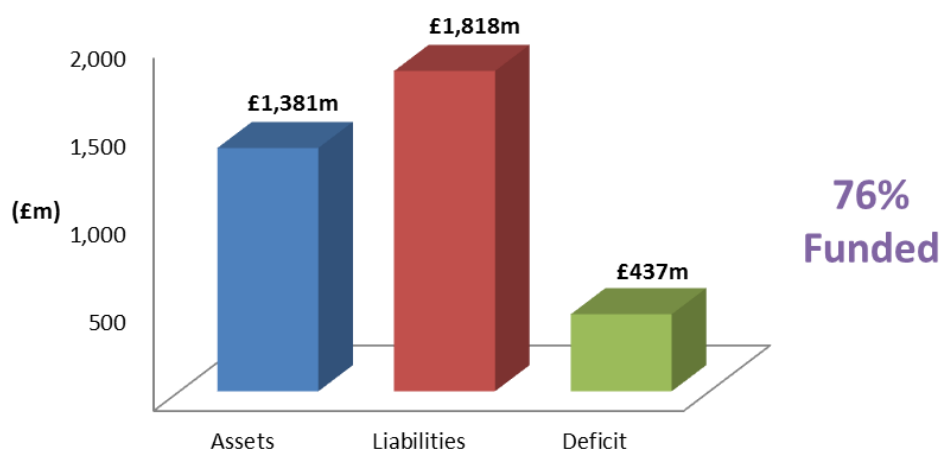
	2017	2016
	£000	£000
	Payments on behalf of	
2,255	Wrexham County Borough Council	2,315
3,209	Flintshire County Council	3,298
1,823	Denbighshire County Council	1,877
551	Conwy County Borough Council	571
51	Coleg Cambria	48
36	Glyndwr	40
22	Powys County Council	23
9	North Wales Fires Service	10
9	DVLA	8
7	Local Government Management Board	7
0	Welsh Water Authority	4
4	Magistrates Court	4
1	Llanasa Community Council	1
1	Cefn Mawr Community Council	1
	7,978	8,207

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

16. ACTUARIAL VALUATION & VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSE OF IAS 26 (Provided by the Fund's Actuary – Mercer Limited)

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 31st March 2016 to determine the contribution rates with effect from 1st April 2017 to 31st 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 this actuarial valuation the average deficit recovery period is 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 may 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 31st 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 Funding Strategy Statement (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.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 31st March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1st 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 31st March 2017 (the 31st March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.5% per annum	3.55% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% 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 31st March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint, together with a lower assumed level of "real" pay growth above CPI inflation, both of which serve to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31st March 2016 was estimated as £2,164 million. Interest over the year increased the liabilities by c£78 million, though allowing for net benefits accrued/paid over the period then decreased them by c£2 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £402 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as 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 31st March 2017 is therefore £2,642 million.